

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, July 22, 1943.

Press Service
No. 37-69

Secretary of the Treasury Henry Morgenthau, Jr., announced today that the goal set for the Third War Loan Drive, starting September 9, will be \$15 billion.

Mr. Morgenthau said that the entire \$15 billion will be sold to individual investors, corporations, insurance companies and other non-banking sources.

"This goal and the Third War Loan program," he said, "was determined by Treasury officials after receiving recommendations from chairmen of the State War Finance Committees, and officials of the Federal Reserve System and the American Bankers Association. Getting this amount of money will be a huge task, and will represent the largest financing program in the history of the world.

"The job of raising this \$15 billion," he said, "will be handled by War Finance Committees of each state, and the bonds will be sold largely by hundreds of thousands of patriotic volunteer salesmen, who already have made plans to concentrate on house-to-house selling, since a major consideration is increasing the number of people who are buying War Bonds."

The securities to be offered in the Third War Loan, it was pointed out, will be essentially the same types as those sold in the Second War Loan.

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The securities to be sold under the direction of the War Finance Committees will consist of:

1. Series E Savings Bonds
2. Series F and G Savings Bonds
3. Series C Savings Notes
4. 2-1/2% Bonds of 1964-69
5. 2% Bonds of 1951-53
6. 7/8% Certificates of Indebtedness

The 2-1/2% Bond will be dated September 15, 1943, due December 15, 1969, callable December 15, 1964, and will be issued in coupon or registered form at the option of the buyers in denominations from \$500 to \$1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these Bonds until September 15, 1953.

The 2% Bond will be dated September 15, 1943, due September 15, 1953, callable September 15, 1951, and will be issued in coupon or registered form at the option of the buyers in denominations from \$500 to \$1,000,000.

The 7/8% Certificates of Indebtedness will be dated September 15, 1943, due September 1, 1944, and will be issued in denominations of \$1,000 to \$1,000,000, and in coupon form only.

None of these securities will be available for subscription by commercial banks for their own account during the period of the Drive. However, shortly after the Drive terminates, a 2 per cent Bond and a 7/8 per cent Certificate of Indebtedness will be offered for subscription by commercial banks for their own account. In order to confine all sales in the Drive to non-banking sources, the Treasury will request commercial banks not to buy in the market, and will request the market not to trade in, either of these securities offered in the Drive until the books for bank subscriptions are closed.

To avoid unnecessary transfers of funds from one locality to another, the Treasury would prefer to have all subscriptions by corporations and firms entered and paid for through the banking institutions where the funds are located.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, July 22, 1943.

Press Service
No. 37-68

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of 7/8 percent Treasury Certificates of Indebtedness of Series D-1944, open on an exchange basis, par for par, to holders of Treasury Certificates of Indebtedness of Series B-1943, maturing August 1, 1943. An additional amount of \$900,000,000, or thereabouts, of the new certificates will be allotted to commercial banks, which are defined for this purpose as banks accepting demand deposits, on cash subscriptions for their own account. Cash subscriptions will not be entertained from any other class of subscriber. Restriction of the cash offering to commercial banks is in line with previously announced policy to exclude from War Loan Drives the offerings to commercial banks.

The subscription books will be open for one day only for the receipt of cash subscriptions, and will remain open for two days for the receipt of exchange subscriptions.

The certificates will be dated August 2, 1943, will be payable on August 1, 1944, and will bear interest at the rate of seven-eighths of one percent per annum, payable on a semiannual basis on February 1 and August 1, 1944. They will be issued in bearer form only, with two interest coupons attached, in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000.

Pursuant to the provisions of the Public Debt Act of 1941, interest upon the certificates now offered shall not have any exemption, as such, under Federal tax Acts now or hereafter enacted. The full provisions relating to taxability are set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit exchange subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Cash subscriptions from commercial banks for their own account will be received without deposit but will be restricted in each case to an amount not exceeding the combined capital, surplus and undivided profits, or 5 percent of the total deposits, whichever is greater, of the subscribing bank.

Subject to the usual reservations, subscriptions in payment of which Treasury Certificates of Indebtedness of Series B-1943 are tendered will be allotted in full. All cash subscriptions will be allotted on an equal percentage basis, to be publicly announced. Payment for any certificates allotted must be made or completed on or before August 2, 1943, or on later allotment.

The text of the official circular follows:

UNITED STATES OF AMERICA

7/8 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS OF SERIES D-1944

Dated and bearing interest from August 2, 1943

Due August 1, 1944

1943
Department Circular No. 717

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 22, 1943.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF CERTIFICATES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for certificates of indebtedness of the United States, designated 7/8 percent Treasury Certificates of Indebtedness of Series D-1944, in exchange for Treasury Certificates of Indebtedness of Series B-1943, maturing August 1, 1943. In addition, \$900,000,000, or thereabouts, of the new certificates are offered for subscription for their own account by commercial banks, which are defined for this purpose as banks accepting demand deposits.

II. DESCRIPTION OF CERTIFICATES

1. The certificates will be dated August 2, 1943, and will bear interest from that date at the rate of 7/8 percent per annum, payable on a semiannual basis on February 1 and August 1, 1944. They will mature August 1, 1944, and will not be subject to call for redemption prior to maturity.

2. The income derived from the certificates shall be subject to all Federal taxes, now or hereafter imposed. The certificates shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The certificates will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer certificates with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. The certificates will not be issued in registered form.

5. The certificates will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States certificates.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Subscribers must agree not to sell or otherwise dispose of their subscriptions, or of the securities which may be allotted thereon, prior to the closing of the subscription books. Banking institutions generally may submit exchange subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from commercial banks for their own account will be received without deposit but will be restricted in each case to an amount not exceeding the combined capital, surplus and undivided profits, or 5 percent of the total deposits, whichever is greater, of the subscribing bank.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of certificates applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, subscriptions in payment of which Treasury Certificates of Indebtedness of Series B-1943 are tendered will be allotted in full. All cash subscriptions will be allotted on an equal percentage basis, to be publicly announced. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for certificates allotted on cash subscriptions hereunder must be made or completed on or before August 2, 1943, or on later allotment. Any qualified depository will be permitted to make payment by credit for certificates allotted to it up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its District. Treasury Certificates of Indebtedness of Series B-1943, maturing August 1, 1943, will be accepted at par in payment for any certificates subscribed for and allotted, and should accompany the subscription.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for certificates allotted, to make delivery of certificates on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive certificates.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

The securities to be sold under the direction of the War Finance Committees will consist of:

1. Series E Savings Bonds
2. Series F and G Savings Bonds
3. Series C Savings Notes
4. 2-1/2% Bonds of 1964-69
5. 2% Bonds of 1951-53
6. 7/8% Certificates of Indebtedness

The 2-1/2% Bond will be dated September 15, 1943, due December 15, 1969, callable December 15, 1964, and will be issued in coupon or registered form at the option of the buyers in denominations from \$500 to \$1,000,000. Commercial banks, which are defined for this purpose as banks accepting demand deposits, will not be permitted to own these Bonds until September 15, 1953.

The 2% Bond will be dated September 15, 1943, due September 15, 1953, callable September 15, 1951, and will be issued in coupon or registered form at the option of the buyers in denominations from \$500 to \$1,000,000.

The 7/8% Certificates of Indebtedness will be dated September 15, 1943, due September 1, 1944, and will be issued in denominations of \$1,000 to \$1,000,000, and in coupon form only.

Total estimated expenditures, July - December, 1943	\$52,000,000,000
Total estimated receipts, for the same period	19,000,000,000
Borrowings necessary to meet the deficit in receipts	33,000,000,000

The borrowing figure includes continuous sale of Savings Bonds and Savings Notes and the present Treasury Bill program. This figure does not necessarily represent the total borrowing for the period, as it may be determined that we should increase our general fund balance in the latter part of the year to meet expenditures after December 31.

JULY 22, 1943

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JULY 22, 1943

JUL 22 1943

My dear Mr. Chairman:

As I think I mentioned to you at one of our meetings on the forthcoming tax program, our next War Loan Drive will commence on September 9, 1943. I understand that the first meeting of the Ways and Means Committee will be on September 8, 1943. I am not sure whether you expect the Treasury to appear before the Committee on September 8. It may be that you intend simply to have a Committee meeting at which you will decide on the date when you will ask the Treasury to appear.

In either event, it would be helpful to the Treasury and I would deem it a favor if you could postpone this first meeting for a few days so that there will be less tax publicity at the very outset of the new War Loan Drive.

Will you write me at your early convenience so that I might make plans accordingly.

Sincerely yours,

(signed) H. Morgenthau, Jr.

Honorable Robert L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C.

Mailed to Laurel Springs, N. C.
File copies to Thompson
Copy in Diary.

Copy to Mr. Grier

REP:ka:mv

REGULATIONS GOVERNING THE PAYMENT THROUGH DEPOSITARY
BANKS OF FUNDS WITHHELD AS TAXES IN ACCORDANCE WITH
THE PROVISIONS OF THE CURRENT TAX PAYMENT ACT OF 1943

1943
Department Circular No. 714
First Amendment

Fiscal Service
Bureau of Accounts
Division of Deposits

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, D. C.
July 22, 1943.

The first paragraph of section 5 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"All incorporated insured banks, within the meaning of section 10 of the Act of June 11, 1942, referred to in section 3 of this circular and all incorporated uninsured banks and trust companies designated as 'Special Depositories of Public Moneys' under the Act of Congress approved September 24, 1917, as amended (Second Liberty Bond Act, as amended)*, are hereby designated, subject to the provisions of this circular, as depositories and financial agents of the Government for receiving from employers or other persons, hereinafter referred to as employers, funds withheld as taxes pursuant to the Current Tax Payment Act of 1943; Provided, That no such bank shall perform any of the acts covered by this designation until it has qualified so to act in the manner herein prescribed."

The first sentence of section 6 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"Any designated bank which desires to qualify, under the terms of this circular, for receiving from employers funds withheld as taxes pursuant to the Current Tax Payment Act of 1943, should apply for qualification through the Federal Reserve bank of the district in which it is located."

The fifth paragraph of section 8 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"In case a bank qualifies as a depository for withheld taxes on or before July 31, 1943, its initial 2% depository bond allotment or Treasury balance under the method elected by the depository will be calculated on the basis of the business transacted under this circular by the depository during the month of August 1943. The same general rule will be applied in the case of banks qualifying during each month after July 1943. For example, in the case of a bank qualifying as a depository during the month of August 1943, the initial 2% depository bond allotment or Treasury balance will be based upon the business such depository transacts under this circular during the month of September 1943."

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

* See Treasury Department Circular No. 92 (Revised), dated April 14, 1943.

TITLE 31 - MONEY AND FINANCE; TREASURY
CHAPTER II - FISCAL SERVICE
SUBCHAPTER A - BUREAU OF ACCOUNTS
PART 212 - PAYMENT THROUGH DEPOSITARY BANKS
OF FUNDS WITHHELD AS TAXES IN
ACCORDANCE WITH THE PROVISIONS
OF THE CURRENT TAX PAYMENT ACT
OF 1943

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, D. C.
July 22, 1943.

The first paragraph of § 212.4 of Title 31 of the Code of Federal Regulations (8 F.R. 9045), appearing also as the first paragraph of section 5 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"All incorporated insured banks, within the meaning of section 10 of the Act of June 11, 1942, referred to in § 212.2 of this part and all incorporated uninsured banks and trust companies designated as 'Special Depositories of Public Moneys' under the Act of Congress approved September 24, 1917, as amended (Second Liberty Bond Act, as amended)*, are hereby designated, subject to the provisions of this part, as depositories and financial agents of the Government for receiving from employers or other persons, hereinafter referred to as employers, funds withheld as taxes pursuant to the Current Tax Payment Act of 1943; Provided, That no such bank shall perform any of the acts covered by this designation until it has qualified so to act in the manner herein prescribed."

The first sentence of § 212.5 of Title 31 of the Code of Federal Regulations (8 F.R. 9045), appearing also as the first sentence of section 6 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"Any designated bank which desires to qualify, under the terms of this part, for receiving from employers funds withheld as taxes pursuant to the Current Tax Payment Act of 1943, should apply for qualification through the Federal Reserve bank of the district in which it is located."

The fifth paragraph of § 212.7 of Title 31 of the Code of Federal Regulations (8 F.R. 9046), appearing also as the fifth paragraph of section 8 of Treasury Department Circular No. 714, dated June 25, 1943, is hereby amended to read as follows:

"In case a bank qualifies as a depository for withheld taxes on or before July 31, 1943, its initial 2% depository bond allotment or Treasury balance under the method elected

* See part 203 of Title 31 of the Code of Federal Regulations (8 F.R. 5141), appearing also as Treasury Department Circular No. 96 (Revised), dated April 14, 1943.

- 2 -

by the depository will be calculated on the basis of the business transacted under this part by the depository during the month of August 1943. The same general rule will be applied in the case of banks qualifying during each month after July 1943. For example, in the case of a bank qualifying as a depository during the month of August 1943, the initial 2% depository bond allotment or Treasury balance will be based upon the business such depository transacts under this part during the month of September 1943."

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE **JUL 22 1943**

TO Secretary Morgenthau
FROM Randolph Paul

This is to advise you about the meeting which was held in New York on July 1, concerning the census of American-owned property abroad on Form TFR-500.

In addition to myself, the meeting was attended for the Treasury by Pehle for Foreign Funds Control, E. M. Bernstein for Monetary Research, and Luxford and Arnold from my office. A list of the other persons present is attached.

The general disposition of the business representatives present apparently was to question certain aspects of the census, without contesting the entire project, either legally or on grounds of policy. Although the results of the meeting were not entirely decisive, we were able to express fully the reasons of the Department for taking the census, and to remove certain misapprehensions which had arisen. It was felt at the end that, on the whole, the atmosphere had been cleared considerably.

We were unable to discuss the matter with Fred Smith before the meeting. However, I have brought him up to date as to the developments.



Mr. Howard Acton
Mr. William Swingle, Vice President of Foreign Trade
Council
Mr. Mahana, Corn Products Company
Mr. Callender, Corn Products Company
Mr. Carroll, General Motors
Mr. Bowen, Socony Vacuum
Mr. Collings, Socony Vacuum
Mr. Max, Texas Oil Company
Mr. Linderman, Secretary of Texas Oil Company
Mr. Saunders, Treasurer of Texas Oil Company
Mr. Thayer, Secretary of Cal-Tex Oil Company
Mr. Franklin, Legal Department of Cal-Tex Oil Company
Mr. Constatler, Comptroller and Treasurer of Cal-Tex
Oil Company
Mr. Kiernan, Cal-Tex Oil Company
Mr. Degan
Mr. Ward, National City Bank
Mr. Knoke, Federal Reserve Bank of New York
Mr. Loree, Guaranty Trust Company

JUL 22 1943

My dear Mr. Speaker:

In accordance with our conversation on the extension of time for filing reports on American-owned property abroad, the Treasury has amended the Regulation and Circular to extend the closing date for reports from August 31, 1943 to November 1, 1943. A copy of the Amendments is enclosed.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Sam Rayburn,
Speaker of the House
of Representatives,
Washington, D. C.

Enclosures.

File copies returned to
White's office.

Copy of ltr. and enclosures
in Diary.

EME/jm
7/22/43

TREASURY DEPARTMENT
Foreign Funds Control
July 14, 1943

CODE OF FEDERAL REGULATIONS

Title 31 - Money and Finance: Treasury
Chapter I - Monetary Offices, Department of the Treasury
Part 137 - Special Regulations under Executive Order
No. 8389, as amended, and Executive Order
No. 9155.

Sub-part A.

AMENDMENT OF SPECIAL REGULATION NO. 1 (*)

Section 137.4 of Special Regulation No. 1 is amended to read as follows:

Section 137.4 Filing.

(a) Reports by persons within the United States shall be filed on or before November 1, 1943, with the Federal Reserve Bank of the district or with the Governor of the territory or possession of the United States in which the person filing the report resides or has a principal place of business or principal office or agency or, if such person has no legal residence or principal place of business or principal office or agency in a Federal Reserve District or a territory or possession of the United States, then with the Federal Reserve Bank of New York or the Federal Reserve Bank of San Francisco.

(b) Reports by persons outside the United States who are subject to the jurisdiction of the United States shall be filed on or before November 1, 1943, with the United States Consul of the district wherein such person is then present.

(c) A report received by the proper Federal Reserve Bank, Governor, or Consul, in a correctly addressed and stamped envelope bearing a postmark of a time prior to midnight of the date upon which the report is due, shall be deemed to have been duly filed.

RANDOLPH PAUL
Acting Secretary of the Treasury

*Part 137: - Sec. 3(a), 40 Stat. 412; Sec. 5(b), 40 Stat. 415 and 965; Sec. 2, 48 Stat. 1; 54 Stat. 179; Public No. 354, 77th Congress, 55 Stat. 838; Sec. 3, Public No. 831, 77th Congress; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, December 9, 1941, and Ex. Order 8998, December 26, 1941; Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1942 and July 26, 1941.

FOR IMMEDIATE RELEASE.
July 14, 1943

Press Service
No. 37-54

The Treasury Department announced today that the time for filing reports of American-owned property in foreign countries on Form TFR-500 has been extended to November 1, 1943. Previously, reports by persons in the United States were required to be submitted by August 31, 1943.

A careful survey of the work so far accomplished and of the reports filed since June 3, 1943, when the census was announced, and discussions with various groups of persons required to report and with the Federal Reserve Banks, which are distributing the forms, has indicated that many persons will not be able to complete their reports by August 31, 1943, without undue hardship.

While the Treasury Department is anxious to secure the vital information which the reports will supply, it recognizes the growing shortage of manpower in various industries and the difficulties of obtaining proper clerical assistance at this time. It has also been pointed out by certain companies having extensive foreign holdings that the long period of time required for transmittal of mail to and from foreign areas might in some instances prevent these companies from furnishing as complete and accurate information as could be accomplished if a somewhat longer time were granted. In view of these considerations, it seemed preferable to give a general extension of time to all persons affected rather than to require applications for extensions. It is believed that an announcement of the extension at this time will enable those required to report to plan their work on the census in such a way as to make most efficient use of their available facilities.

It will be of definite assistance to the Treasury, however, if those persons having their data available and now in the process of compiling their reports file them as soon as they are completed in order that the Treasury may proceed on classification and analysis.

The final filing date of November 1, 1943, will apply to persons abroad who are subject to the jurisdiction of the United States as well as to persons within the United States.

OFFICE OF FOREIGN ASSETS ADMINISTRATION
TREASURY DEPARTMENT
Foreign Funds Control
July 14, 1943

CODE OF FEDERAL REGULATIONS

Title 31 - Money and Finance: Treasury

Chapter I - Monetary Offices, Department of the Treasury

Appendix B*

AMENDMENT OF PUBLIC CIRCULAR NO. 22

Section II-9 of Public Circular No. 22 is amended to read as follows:

9. Time and place of filing reports.--

A. Persons within the United States.--Reports by persons within the United States shall be filed on or before November 1, 1943, with the Federal Reserve Bank of the district or with the Governor of the territory or possession of the United States in which the person filing the report resides or has a principal place of business or principal office or agency, or if such person has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or a territory or possession of the United States, then with the Federal Reserve Bank of New York or the Federal Reserve Bank of San Francisco.

B. Persons outside the United States.--Reports by persons outside the United States who are subject to the jurisdiction of the United States shall be filed on or before November 1, 1943, with the United States consul of the district wherein such person is then present.

C. Filing by mail.--A report received by the proper Federal Reserve Bank, Governor, or consul, in a correctly addressed and stamped envelope bearing a postmark of a time prior to midnight of the date upon which the report is due, shall be deemed to have been duly filed.

RANDOLPH PAUL
Acting Secretary of the Treasury

*Sec. 3(a), 40 Stat. 412; Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; 54 Stat. 179; Public No. 354, 77th Congress, 55 Stat. 838; Sec. 3, Public No. 831, 77th Congress; Ex. Order 8389, April 10, 1940, as amended by Ex. Order 8785, June 14, 1941, Ex. Order 8832, July 26, 1941, Ex. Order 8963, December 9, 1941, and Ex. Order 8998, December 26, 1941; Ex. Order 9193, July 6, 1942; Regulations, April 10, 1940, as amended June 14, 1941 and July 26, 1941; Special Regulation No. 1, June 1, 1943.

OFFICE OF LEND-LEASE ADMINISTRATION
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. STETTINIUS, JR.
ADMINISTRATOR

July 22, 1943

MEMORANDUM

To: The Honorable Henry Morgenthau
From: E. R. Stettinius, Jr.
Subject: Executive Reports

Transmitted herewith, for your information,
are copies of the Executive Reports on lend-lease
operations, as of June 30, 1943.

Attachments

CONFIDENTIAL
Executive Report No. 1

Office of Lend-Lease Administration
ALLOCATIONS, OBLIGATIONS AND EXPENDITURES
FUNDS APPROPRIATED TO THE PRESIDENT
Monthly Report as of June 30, 1943
(Thousands of Dollars)

Appropriation Category	Adjusted Appropriations	Cumulative to June 30, 1943		
		Allocations	Obligations	Expenditures
Ordnance and Ordnance Stores	1,683,306	1,678,306	1,501,455	1,179,255
Aircraft and Aero. Material	2,669,625	2,665,855	2,523,682	1,942,226
Tanks and Other Vehicles	759,273	673,276	634,874	543,691
Vessels and Other Watercraft	3,871,703	2,474,575	1,952,661	1,509,632
Misc. Military Equipment	353,288	353,266	304,633	222,655
Production Facilities	1,104,688	1,102,488	1,058,029	867,280
Agric. and Indust. Commodities	12,608,929	9,226,190	6,400,745	5,361,274
Servicing, Repair of Ships, etc.	790,818	569,112	423,839	406,681
Services and Expenses	800,000	480,109	269,964	224,012
Administrative Expenses	28,999	23,022	20,359	20,134
Total	24,670,629	19,246,199	15,090,241	12,276,840

Procuring Agency	Allocations	Obligations	Expenditures
War Department	5,716,121	5,323,901	4,400,526
Navy Department	3,035,667	2,376,189	1,629,521
Maritime Commission and War Shipping Admin.	2,299,857	1,725,048	1,603,370
Treasury Department	3,950,656	2,617,865	1,715,063
Department of Agriculture	4,228,211	3,033,408	2,917,500
Other	15,687	13,830	10,860
Total	19,246,199	15,090,241	12,276,840

CONFIDENTIAL
Executive Report No. 2

Office of Lend-Lease Administration
STATEMENT OF LEND-LEASE AID
Monthly Report as of June 30, 1943
(Thousands of Dollars)

Type of Aid	Cumulative to		Month of	
	June 30, 1943	May 31, 1943	June	May
Goods Transferred	10,883,946	9,929,937	954,009	715,699
Servicing, Repair of Ships, etc.	314,895	290,847	24,048	9,838
Rental of Ships, Ferrying of Aircraft, etc	1,044,786	1,021,976	22,810	60,279
Production Facilities in U. S.	599,519	582,022	17,497	1,459
Miscellaneous Expenses	79,786	67,873	11,913	2,908
Total Services	2,038,986	1,962,718	76,268	74,484
Total Goods and Services	12,922,932	11,892,655	1,030,277	790,183

Data on Goods Transferred include value of goods procured from lend-lease appropriations to the President and to the Army and Navy.

Type of Aid	Cumulative to June 30, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Goods Transferred	8,434,091	136,369	2,122,670	190,816	10,883,946
Servicing, Repair of Ships, etc.	228,072	1,635	51,719	33,469	314,895
Rental of Ships, Ferrying of Aircraft, etc.	765,759	12,307	167,765	98,955	1,044,786
Production Facilities in U. S.	-	-	-	-	599,519
Miscellaneous Expenses	54,065	1,149	1,629	22,943	79,786
Total Goods and Services	-	-	-	-	12,922,932

CONFIDENTIAL
Executive Report No. 3

Office of Lend-Lease Administration
DETAIL OF ARTICLES TRANSFERRED
Monthly Report as of June 30, 1943
(Thousands of Dollars)

	Cumulative to June 30, 1943				
	Br. Empire	China	U.S.S.R.	Other	Total
Ordnance (Excl. Ammunition)	412,910	15,879	55,933	47,082	531,804
Ammunition and Components	915,515	22,194	220,210	17,233	1,175,152
Aircraft	780,579	40,169	414,798	32,520	1,268,066
Aircraft Engines, Parts, etc.	478,968	4,821	16,442	3,062	503,293
Combat Vehicles	947,900	923	223,120	21,222	1,193,165
Non-Combat Vehicles	263,895	25,452	254,954	10,309	554,610
Watercraft and Parts	860,484	447	99,726	10,244	970,901
Agric. Products (Foodstuffs)	1,308,053	-	213,202	10,370	1,531,625
Agric. Products (Excl. Food)	331,800	41	3,804	121	335,766
Machinery	322,918	4,137	174,058	1,946	503,059
Metals	497,096	9,409	212,031	1,183	719,719
Petroleum Products	491,284	2,415	23,797	78	517,574
Miscellaneous Material and Manufactures	822,689	10,482	210,595	35,446	1,079,212
Total	8,434,091	136,369	2,122,670	190,816	10,883,946

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

July 22, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended July 14, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

EmB

FEDERAL RESERVE BANK
OF NEW YORK

July 21, 1943

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended July 14, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke,
L. W. Knoke,
Vice President.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

Enclosure

COPY

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended July 14, 1943

Strictly
Confidential

	BANK OF ENGLAND (BRITISH GOVERNMENT)							BANK OF FRANCE					
	D E B I T S				C R E D I T S			Transfers from Offi- cial Aus- tralian Account	Other Credits (c)	Net Incr. (+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expendi- tures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Gold	Proceeds of Sales of Securities (Official) (b)						
of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0
through 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1
of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	- 13.2	38.9	8.8	- 30.1
of war (i)	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1
Sept. 30	56.1	37.1	-	19.0	81.6	-	0.5	20.5	60.6	+ 25.5	10.1	0.4	- 9.7
Oct. 28	46.7	27.4	-	19.3	57.5	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3
Nov. 2	96.6	35.5	-	61.1	83.7	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1
Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	43.9	+ 21.5	-	-	-
Jan. 3	168.6	20.9	125.0	22.7	58.9	-	-	8.0	50.9	-109.7	-	-	-
Feb. 3	87.2	17.8	37.7	31.7	120.8	-	-	15.0	105.8	+ 33.6	-	-	-
Mar. 31	35.3	12.9	-	22.4	64.4	-	-	5.0	59.4	+ 29.1	-	-	-
Apr. 28	37.0	16.3	-	20.7	87.4	-	-	15.1	72.3	+ 50.4	-	-	-
May 2	90.4	74.3	-	16.1	103.4	-	-	19.0	84.4	+ 13.0	-	-	-
June 30	31.6	11.6	-	20.0	130.7	-	-	20.0	110.7	+ 99.1	-	-	-
ended:									38.3	+ 32.1	-	-	-
June 23	6.2	1.9	-	4.3	38.3	-	-	-	18.2	+ 12.9	-	-	-
June 30	6.3	3.5	-	2.8	19.2	-	-	7.0	11.2	+ 13.1	-	-	-
July 7	5.1	2.9	-	2.2	18.2	-	-	6.0	24.3(j)	+ 21.1	-	-	-
July 14	9.2	5.3	-	3.9	30.3(j)	-	-	-	-	-	-	-	-

See attached sheet for footnotes.

Weekly Expenditures Since Outbreak of War
 (through June 19, 1940) \$19.6 million
 (through June 19, 1940) \$27.6 million
 (June 20, 1940 to March 12, 1941) \$54.9 million
 (since March 12, 1941) 22.0 million

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended July 14, 1943

Strictly Confidential

Month	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Others Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits
Year of war (a)	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.0
Through 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	+ 5.0
Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	+ 9.9
Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Nov. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	+ 0.8
Dec. 30	48.2	-	48.2	43.9	2.9	-	-	41.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
Jan. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Apr. 30	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	+ 0.4
May 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	1.3	19.3	-	19.3	+ 2.9
June 7	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	+ 1.7
July 14	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
Year ended:								10.3	+ 1.3	-	-	-	0.3	-	0.3	+ 0.3
June 23	9.0	-	9.0	10.3	-	-	-	16.5	+ 3.4	1.0	1.0	-	8.6	-	8.6	+ 7.6
30	19.9	-	19.9	16.5	-	-	-	18.6	+ 2.9	8.3	7.0	1.3	11.6	-	11.6	+ 3.3
July 7	15.7	-	15.7	18.6	-	-	-	8.9(r)	- 59.6	7.8	6.0	1.8	0.5	-	0.5	- 7.3
14	68.5(p)	-	68.5(q)	8.9(d)	-	-	-									

Monthly Expenditures

Year of war 6.2 million.
Year of war 8.9 million.
Year of war 10.1 million.
Year of war 9.2 million.
Year of war (through July 14, 1943)

6.2 million.
8.9 million.
10.1 million.
9.2 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
(b) For monthly breakdown see tabulations prior to October 8, 1941.
(c) For monthly breakdown see tabulations prior to October 14, 1942.
(d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
(e) Does not reflect transactions in short term U. S. securities.
(f) Includes \$ 6.2 million deposited by War Supplies, Ltd.
(g) Includes \$60.0 million paid to U. S. Treasurer apparently representing refunds of advance payments made to War Supplies, Ltd. on contracts cancelled. Canadian expenditures for week largest recorded for war period.

- Increase in assets for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Commission, Ministry of Shipping.
- (a) Includes figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to official selling, substantial liquidation of securities for private British account occurred, particularly during the early part of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to figures supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of securities through December, 1940 amounted to \$334 million.
- (b) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, proceeds reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (c) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (d) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) For monthly breakdown see tabulations prior to April 23, 1941.
- (g) For monthly breakdown see tabulations prior to October 8, 1941.
- (h) For monthly breakdown see tabulations prior to October 14, 1942.
- (i) Includes \$13.7 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise; 3.0 million to be held for credit of U. S. Army.

*Photostat to 228
1944 exhibit 7/23*



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 893.5151/

July 22, 1943

My dear Henry:

I have received your letter of July 15, 1943, enclosing a copy of a memorandum presented by you to the President dealing with the Chinese request for the purchase of gold to the amount of \$200,000,000 out of the \$500,000,000 financial aid extended by this Government to China and the text of a telegraphic message sent through this Department to the Treasury representative in China.

I wish to thank you for your courtesy in furnishing me with these documents and in thus keeping me informed of developments and of your views in regard to this important subject.

Sincerely yours,

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 22, 1943, 8 p.m.

NO.: 1260

The following is strictly confidential telegram no. TF 142 for the Secretary of the Treasury only from Adler.

1. On July 21 I transmitted to Dr. Kung your message, Telegram no. 911 of July 16; Dr. Kung indicated that he already had sent you a formal request.

2. Reference your 882 of July 9, part two and my TF 141 of July 17.

A. In an informal conversation with me on July 20 Dr. T. F. Tsiang of the Executive Yuan intimated that while sale of gold in China was regarded by a few high government officials as a panacea, it was tentatively estimated in better informed government circles that it would be possible to sell about one million ounces of gold at about 8,000 CN dollars per ounce, which would yield enough to cover approximately one-fourth of the probable 1943 deficit. It was his feeling that, lacking definite knowledge as to the scale on which gold would be absorbed at worthwhile prices, sale should be begun experimentally and the experiment should be scrapped if it is unsuccessful.

B. Shanghai bullion dealers who have been coming into Free China to set up business since the Central Government annulled its prohibition of free trading in gold constitute a majority of the Chungking dealers, who number 30 to 40.

3. As your messages take an average of not less than 4 days to reach me, it is suggested that Treasury mark messages of relative urgency "priority". Bad local transmitting conditions were the cause of delay in your receipt of my TF 141.

ATCHESON

OFFICE
SECRETARY OF TREASURYNOT TO BE RE-TRANSMITTED
13 JUL 23 PM 2 01COPY NO. 13BRITISH ECST SECRET
U.S. SECRET

TREASURY DEPARTMENT

OPTEL NO. 240.

Information received up to 7 a.m., 22nd July, 1943.

1. NAVAL

MEDITERRANEAN. 18th/19th. Our Coastal Forces damaged two E-Boats in STRAITS OF MESSINA. One of our L.T.B.'s damaged by fire from Shore Battery. 20th/21st. Targets in CATANIA Area bombarded from sea. 21st. Two of H.M. Cruisers and Destroyers bombarded COTRONE (Southeast ITALY) without meeting effective opposition. Fires started in harbour and chemical works hit.

2. MILITARY.SICILY. No further reports received.

RUSSIA. 21st. Russians made further progress towards OREL, occupying localities ten miles Northeast and twelve miles East of OREL. In BELOCROD Area and DONETS Basin, the Russians improved their positions in local fighting.

BURMA. On ARAKAN Front patrolling continues. During 17th/18th, our patrols inflicted 60 casualties on Japanese in engagements three miles East of LAUNGDAW. Our casualties - three.

3. AIR OPERATIONS

ITALY AND SICILY. 19th/20th. Wellingtons dropped 83 tons of bombs on AQUINO Airfield (52 miles Northeast of NAPLES) and 66 tons on NAPLES Airfields. 23 Medium and Light Bombers attacked RANDAZZO (Central SICILY).

20th. 145 Escorted Medium Bombers attacked Airfields at MONTECORVINO and ROVELLA, (40 miles Southeast of NAPLES) and VIBO VALENTIA (toe of ITALY). At former large hangar and 26 Aircraft burnt out and damage caused to Barracks and main hangar.

MALTA. 19th/20th. About 25 enemy Bombers attacked GRAND HARBOUR Area causing damage to Residential property.

July 23, 1943
9:05 a.m.

TAXES

Present: Mr. Bell
Mr. Paul
Mr. Gaston
Mr. White
Mr. Smith
Captain Kades
Mrs. Klotz

H.M.JR: Before we start the discussion, since everybody has had a chance to think it over I would just like a showing of hands of those who want me to send the letter in the approximate form that Mr. Gaston wrote it last night.

(Mr. Bell, Mr. Paul, Mr. Gaston, and Mr. Smith indicated affirmatively.)

MR. PAUL: In the approximate form - I would like to make some changes.

MR. SMITH: In the approximate form.

MRS. KLOTZ: You mean the one we heard last?

H.M.JR: Yes.

MRS. KLOTZ: Yes.

H.M.JR: Who is for it?

(Mr. Bell, Mr. Paul, Mr. Gaston, Mr. Smith, and Mrs. Klotz indicated affirmatively.)

H.M.JR: And I am.

- 2 -

We will start in with White and Kades and find out why they don't want us to send it.

MR. WHITE: I have had a chance to think it over a little, and I am not wholly clear now, after cogitating on the reply that you got from the President, as to the need for that at this stage.

It seems to me the answer is very clear from the President that you are to present the program.

The answer remains unclear with respect to the responsibility for formulating the program. Apparently the President meant it to be unclear. Whether the President thought he was merely disposing of the problem by telling you to cooperate with Byrnes, and so on, or whether he deliberately meant to leave it unclear, I don't know. But it is unclear, and that is the only aspect of it that is unclear.

I think that there may be a possibility of either clearing that up with Byrnes and Vinson or straightening it out with them in a way that would not have some of the disadvantages that the kind of conversation we have been thinking about might have.

I talked just for a minute before we came in with Chuck. He had mentioned just before we came in the room a suggestion which appeals to me, and it seems as though that might be the basis for the first step.

That is to prepare a memorandum, a brief memorandum, which you will use as a basis for discussion with Vinson and Byrnes, saying what is in your mind. I mean that there has to be clear responsibility, that they have been in Government long enough to know that any uncertainty with respect to responsibility leads only to unfortunate results, and that you can't work that way; that the President told you that you were going to present it, that that is clear, but that from remarks which have been appearing in the press, and what not, you are not certain that they understand along with you who is to formulate it.

- 3 -

Now then, it is your idea of getting the best results, so that there is a hundred percent cooperation and at the same time leaving no doubt as to who has to carry the ball, and you would like to have them initial the memorandum if they agree, in order that there shall be no misunderstanding on anybody's part as to what the course of procedure is to be in this most difficult task of formulating a tax program.

And in order to leave no uncertain edges, you have taken the trouble to put down on paper on one or two pages specifically what the approach or the setup or the responsibility shall be. And I am assuming you can draft that to your own complete satisfaction.

Now then, if they agree and initial it, then it seems to me you have avoided the difficulty of their going behind and saying they can't cooperate, or this, that, and the other thing. And you have something definite from them.

If, on the other hand, they want to change certain items you may be willing to change them if it doesn't interfere. If they don't wish to accept it, then I think is the time for you to go to the President, and you might well have a letter already drafted which anticipates that move of going to the President if they don't accept that.

I rather like that, for this reason, that it may well be that you can work out something that will leave sufficient certainty so that you can operate for the next tax bill since there is no question about the presentation. All you are concerned with is the question of the formulation, and you can also ask them at that time to cut out the press--

H.M.JR: Harry, that thing is impossible. In the first place, it assumes that I have to go and plead with these fellows, you see, to be allowed to do my job. I am not going to plead with anybody.

- 4 -

MR. WHITE: I wouldn't regard it as pleading. I would more regard it as telling them.

H.M.JR: I am in no position to tell them. The thing would be an endless discussion. The whole point is that I maintain that my authority is a straight-line authority from the President to me.

Now, I go and plead with Byrnes and with Vinson to let me do this job, and by the very fact that I go to see them I recognize their authority, which I don't. I mean, that assumes I recognize their authority.

MR. WHITE: You recognize that they have some authority in the matter, yes.

H.M.JR: Going back to the meeting when this thing was drawn up, at which Gaston was present, when the President promulgated this original order, what did he say?

MR. GASTON: He was asked by one of the people present - I don't recall who - whether they would receive suggestions from the Director of Economic Stabilization. He said, "No, not suggestions. You are to receive orders."

Then he turned to me, and he said, "But that does not apply to the Treasury Department."

MR. WHITE: What doesn't apply to the Treasury Department?

MR. GASTON: That the Director of Economic Stabilization should give orders in their fields - that does not apply to the Treasury Department.

MR. WHITE: But the giving of the orders doesn't apply to the Treasury, if I follow you?

MR. GASTON: That is right. The Treasury was especially exempted from being placed under the orders of the Economic Stabilization Director.

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MR. BELL: Informally exempted. The order certainly covered it, didn't it?

MR. GASTON: I would have to get the text of the order again.

MR. BELL: I don't know as Byrnes ever recognized it.

MR. GASTON: Byrnes was not present at that meeting.

H.M.JR: I went over and told it to Byrnes and told him very politely but very firmly.

Then he said to me, "Do you mean to say you are over me?"

I said, "No, but you are not over me, either. I recognize your position."

MR. WHITE: That is exactly what I should assume.

H.M.JR: Harry, I am not going to do it that way. I appreciate your suggestion. I am not going to do it. I am not going to go and plead with these fellows. I know them too well. They will give me the run-around all summer long, and while I was doing it they would go to see the President and tighten the thing up. It would be just notice to them.

You see, with the Bureau of the Budget, the Attorney General, and Byrnes, and Vinson - that whole group - all lined up against us, the only chance I have got is to deal with the President directly. And every time I have been to him directly he has been fair with me. I won't get a break out of any of these people.

Now, Bell made a very shrewd comment last night. What was that that they might do that you were saying?

MR. BELL: I don't think that the President's letter of June 12 is clear. It says that you will present--

- 6 -

MR. GASTON: If he decides on a program.

MR. BELL: If he approves a program.

MR. WHITE: The Secretary wouldn't present a program that the President didn't approve of.

MR. BELL: I don't know that the President has ever actually approved a program we have presented. He has always stayed in the background.

But I think what will happen is Vinson and the rest of the crowd down here will cooperate with Stam and their program will be presented from the Hill and won't be a Presidential program. Then he goes to the President, and the President says, "I didn't approve any program."

MR. GASTON: It looks like a--

MR. BELL: I think it is a very cleverly written memorandum.

MR. GASTON: After Dan pointed it out, I am inclined to agree it is a deliberate loophole - "If I approve a program I will present it." The play is he is not to approve a program, but Vinson is to work out a program with Stam and help to lobby it through.

MR. BELL: I would like to see some way to do this without the letter, but in view of everything that has gone on and happened in the last two months I don't see how you can go to Vinson and sit down and talk to him about it. I think he will do just as he usually has, kind of evade the issue and give you a lot of talk about wanting to cooperate and then he will turn right around and do just as he has been doing.

H.M.JR: I have had the advantage of seeing these so-called country lawyers operate. The man who is the top master of all of these fellows is John E. Mack. He is one of the best prosecuting attorneys outside of the

- 7 -

City of New York, and I have seen that fellow talk for two hours. You don't know what he is getting at, and--

MR. PAUL: Vinson can talk for - he talked for three hours at the last conference.

H.M.JR: ... and then suddenly when you are fagged out, bing, in goes the sword right to the heart. I have seen John E. Mack operate.

MR. PAUL: He said he wasn't in charge of the program now. Even though he was semi-sincere about it, by September 8 things will be fixed up on the Hill and in the White House so that a sudden emergency would develop, and it would be at Mr. Doughton's request or somebody else's request that Mr. Vinson, just for the sake of the feeling among the members of the committee, would present the tax bill.

I think there are certain things in this letter, on reading it over, Herb - and I worked on it again last night, and it has been rewritten, but still there are certain things--

H.M.JR: There are certain things I want to change. The point is this. Doughton and every other member of the committee know that when we get a point, whether it is tax-exempts, community property, oil well depletion, we are right there with the pressure. They know we want higher taxes. They are thinking of next election.

Here comes a fellow like Vinson, who is one of them. He can deal with them. What difference does it make if we don't get five billion increase increase in individual income taxes? He isn't running for office. He can go back to the bench, and he can make any deal he wants with them. That is their whole business, their whole training.

Here is the Treasury with this constant pressure all the time for more taxes, closing more loopholes.

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Sure, if we can get rid of them, wonderful.

Now, if the President wants - the part that I don't think is strong enough - I don't think we patted the Treasury and myself on the back enough for what we have done the last ten years.

The thing in my mind I would like to say is this, Herbert. There are a couple of things I would like to say. "I have, with the help of my assistants, done everything I can to get through additional taxes. As a matter of fact, Mr. President, we have increased taxes from so much to so much during the last ten years, and here are some of the important loopholes which have been closed."

Just say to him: "If you don't want us to continue this aggressive tax program to combat inflation and to increase revenue, please say so. It will relieve me of the most unpopular and most time-consuming, wearing, and so forth and so on, job. But I want all of it or nothing." That is the way I feel.

MR. BELL: That doesn't mean that you don't want to cooperate with the other agencies that are interested.

H.M.JR: "And that does not mean that I am not willing to spend morning, noon, and night sitting down with other agencies to try to work out a program. I have been willing to be the whipping boy for the Administration publicly on this reform tax program."

MR. PAUL: You mean the whipped boy.

H.M.JR: No, I would like to say this: "I have been the whipping boy on this progressive tax reform program which has been put through, and I have been willing, and am still willing - I am dumb enough to ask for it."

That is the way I feel. "I am stupid enough to ask for it because I am so interested in winning the

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war and contributing to curbing inflation. But I want all or nothing."

And the other thing that I would like to say, Herbert - I would like to get my own personality in this. That is the way I feel.

Do we have to refer to the June 10 correspondence at all?

MR. GASTON: No, we don't have to at all.

H.M.JR: That would take care of one of Harry's objections.

MR. PAUL: We have taken care of one of Harry's partly by leaving out--

H.M.JR: But why do we have to refer to it at all?

MR. WHITE: Because it seems to me, though apparently there are doubts in the other men's minds, that he has definitely answered your question with respect to who presents the bill, which is one of the things that concerned you.

H.M.JR: All I would say is this: "I did take this matter up with you, and Mr. Byrnes, who was in charge of the Stabilization--"

MR. PAUL: Vinson had been in at that time.

MR. GASTON: Vinson was appointed on May 28.

H.M.JR: I don't know why we refer to it at all.

MR. WHITE: The reason for referring to it is that you no longer raise that question because you assume that that is so. That means there is only one question for him to answer.

H.M.JR: I want to raise both.

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MR. SMITH: But look, here is the--

MR. BELL: If you raise that first one again, you can say "which was not clearly answered."

MR. SMITH: That is right.

MR. GASTON: We could be a little vague and simply say that there is still confusion about this whole tax picture. Say that there are rumors going around, and the press, and the whole thing is confusion, and it is a serious affair, and then go ahead with this review and not mention anything specifically - not even Crider's article.

MR. PAUL: It doesn't matter what is in private correspondence between you and the President. What is needed here is something to issue to the public. That is what is causing the confusion. If Crider had seen that memorandum from the President to you, he probably wouldn't have written this story.

H.M.JR: I agree with you on that. The other thing I think you have got to drive home - I might just as well say it - is that I want to say how the thing bothers me. I have to take his time and my time, and this is another family row in the brewing; and the time to kill it is when it is in the bud.

MR. PAUL: You know that famous mixed metaphor by Huey Long, "When I smell a rat I nip it in the bud."
(Laughter)

H.M.JR: Would it be very difficult to change it, Herbert, along those lines?

MR. GASTON: I am not sure about leaving out the Crider letter and these other things. You have to have a little something to hang it on. You might refer to what has occurred at Cabinet meetings. I don't know whether you want to do that or not.

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MR. WHITE: Could you lump it all in one sentence and say, "Several articles that have appeared, several comments that have been made at Cabinet meeting, several statements that have been repeated to me coming from high places" - in other words, put it all in one sentence and dispose of it in that way? Say that it has left the matter very uncertain, and put your emphasis on the necessity for clarification.

MR. BELL: Can you put in the relations on the Hill? Has that been changed any?

H.M.JR: I am willing to say "your comments at Cabinet."

MR. WHITE: You might say, "Even despite your letter of June 10 the matter remains sufficiently uncertain to call for clarification." Then you go on and say, "I can't work that way."

H.M.JR: I would like to say, "I may be foolish in asking it, but my sense of duty makes me feel that I should continue to carry this burden for you."

MR. PAUL: You must have some sense like that or you wouldn't want to do it.

H.M.JR: I will say, "My sense of duty" and so forth - but it is a sense of duty.

Suppose we get the answer, "All right, the Treasury is not going to have it. This comes under the Stabilization program." What is your own attitude?

MR. PAUL: My own attitude, then, is that one of the principal functions of my work in the Treasury Department, and the only one for which I have any special qualifications based on long experience, is gone, and I don't see much use in my staying. I don't see much use in my staying as far as Customs and Narcotics. I am of no particular value in advising on bond questions. Foreign Funds remains.

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And of course I have a special - as to the presentation of the program I have a special consideration. I have been identified with the presentation of two programs now.

So far as public understanding of the situation is concerned, I am completely humiliated by being taken out.

H.M.JR: I think if you and Gaston would go in the room now and close the door - I would love to get this off before I leave tonight.

I would like to say this in the letter to these people: "It ought not, Mr. President, to be necessary for me to review the accomplishments during the past ten years on tax legislation. But I feel, in view of what is happening that it is necessary."

MR. PAUL: I am against that part of the letter except incidentally because I think it is a red herring.

H.M.JR: No. I tell you what I am trying to get over to you gentlemen. As long as you are going to advise me you might as well know everything that is in my mind.

Due to this constant pressure during the last ten years of tax reform, which I have led, with the assistance of different people here - a succession of people - I have had a lot of my under secretaries quit, most of them on the tax program, and I have taken the most ungodly attacks steadily from the press. Very rarely has the President gotten in on it. But when he did get in on it, like exchanging letters with Pat Harrison, it was bad judgment on his part. He did it in a very unfortunate way. But as a good citizen, I am still willing to do it.

It is like this thing, the fight I made to get the presidents of the Federal Reserve Banks to continue.

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I fought like a tiger to get them to continue. But I said, "If they don't, it is good for me."

Now, if the President takes this away, the next year and a half will be wonderful. It will be wonderful. The next year and a half will be swell. I can sit back. I know enough about taxes. I can criticize the rest of the people.

All the newspapers - I will become the white-haired boy. They have gotten the most wonderful editorial in today's New York Times on War Bonds. We couldn't have written something half as good. The Times will quit attacking me. The Scripps-Howard will quit. I can have some fun for the next year and a half.

MR. WHITE: It will have been known on the record in history, say if there are no more immediate factors, that the Treasury lost one of its very important functions under your administration.

H.M. JR: And why?

MR. WHITE: I think that taxes is a Treasury matter, and I think that you can't put it wholly on a personal basis. The formulation of the tax program has been and will be and should be.

H.M. JR: And why was it taken away from me after ten years? I will tell you why. It is just the same reason that he slapped Wallace down. If he slaps me down, it is just a swing to the right.

All right, I have done enough the last ten years on taxes; I can rest on my oars. If they don't want an aggressive tax program, if they don't want it under my leadership, O.K. They didn't want an aggressive foreign purchasing program, so they rubbed Wallace out. It won't be on me. With the liberals and the people that I care about I have made my record. The burden of proof will be on the other fellow, Harry.

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Why did they take it away from me? Because they don't want an aggressive tax program any more than they wanted the aggressive stuff - if they don't want Wallace blocking cyanamid from going down into Mexico, and all the rest of the stuff, and so forth and so on--

MR. BELL: It would be all right if we could write the chapter in the history book. (Laughter)

H.M.JR: The white paper on inflation will be ready for release?

MR. SMITH: They are working just on the physical presentation.

H.M.JR: How much longer?

MR. SMITH: We are getting a man in from the Army to finish it. Banyas is loaded up. We had to get a man in to do the physical work on it. It will be ready next week, if we get the man.

That covers all the high points of what the Treasury has done to combat inflation from way back three or four years ago. Over on one side of the page is the story--

MR. PAUL: From Blough?

MR. SMITH: They have given me the material. I just went through the material and took out the high spots. First they took out what they thought were the high spots. They got clippings to back up everything the Treasury has said. One side - on the left-hand side is the picture of the Treasury knocking its head against the wall trying to do something about inflation. On the other page we have a chart that goes from the time we started to date, showing the cost of living going up, and here on a certain date the Treasury said to do so and so. So it ought to be very effective.

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H.M.JR: Anyway, you people know how I feel. Would you and Paul please lock yourselves up, and when you are ready let me know. You ought to be able to do something in a couple of hours.

MR. GASTON: How would it be to take this kind of approach: "I want to talk to you very seriously about the tax situation. It is at the present time one of indecision and confusion. As things go on, there is little prospect of your getting any tax bill worth while so far as new revenue is concerned and combatting inflation. These are some of the items of the picture."

Make it a talk from the standpoint of our wanting to do something aggressive, as we have done in the past, on the subject of taxation, and the way the cards are stacked now it looks as if we wouldn't have any chance to do it.

H.M.JR: Would you want to make it a little bit more personal, start off, "I want to bring this to your attention as one who has served you loyally for ten years and as a friend" and so forth?

MR. SMITH: I think there is a great deal of virtue in making it a very personal letter because I think he will be less likely to shoot it off to Ben Cohen to answer.

You know this thing of Danny's worries me a little bit - I mean just mechanically. After he gets the letter then he says, "Maybe Cohen wrote that answer, maybe Cohen put that loophole in there." So he calls Cohen in, and he says, "I thought you were supposed to answer it and tell Henry that he was going to do this job."

So Cohen says, "I did. See?" And he reads that paragraph.

If the President is busy he thinks it says what the words say.

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I am not sure you shouldn't clear that one up.

I took a crack this morning at starting the letter off. I am not sure that it is the right thing to do, and I haven't even O.K.'d it. But I just throw this in.

(Draft of letter read by Mr. Smith, copy attached.)

MR. BELL: That is to the point.

H.M.JR: It is a damned good letter. It sounds more like Harold Ickes, though.

MR. SMITH: On the second rewriting I could take some of the dynamite out of it.

H.M.JR: I would love to sign it.

MR. SMITH: Then I--

MR. WHITE: I think that is the sort of letter, if you are going to send a letter, to send, with one additional paragraph or two to bring out the point that there is much more at stake here than a mere matter of whether one man or another man shall be in charge.

"What is at stake here is a question of whether you are going to have a new deal spirit in your tax laws or whether you are going to move it away in the direction of somebody else for apparently administrative reasons; and whether by so doing you are at the same time giving one of the departments which has been your staunchest and most aggressive new deal agencies" and so on.

It is a short letter, and he has got to answer it one way or the other.

H.M.JR: He knows - the President knows what is going on. He reads the papers.

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MR. WHITE: The advantage of a short letter like that is it doesn't lend itself to an answer which goes off on other tangents of arguing whether this bill or another bill or whether the press is misquoting, or this, that, and the other thing. It leaves him no room to maneuver. He has got to meet it on the issue.

MR. SMITH: That is the way I feel. I think if you get too wordy in this thing, it is going to leave too many cuts for the guy that answers the letter. I mean, you can take a letter that is long and wordy and get a Vinson-type answer from it that is a perfect answer for anything you want it to answer. I mean he can write the letter to you, and it means one thing; he can take it back to the President, and it means something else. I think that is exactly what happened on your other letter.

H.M.JR: When did you do this?

MR. SMITH: I did it this morning between ten minutes to nine and nine o'clock. (Laughter)

MR. WHITE: I think the other letter is better for the record. It is a much more ~~com~~plete, much better delivery device, and a much more complete and effective letter. If one wished to have a letter in the record or published, it makes a much better letter; but for the purpose that you have in mind, it seems to me that something very close to that would get you what you want most quickly and most clearly.

MR. BELL: Could you indicate some way that this is a sort of personal thing between you and the President so that he wouldn't go around some place else to have it answered - personal or confidential doesn't mean anything on a letter.

MR. WHITE: How could he take that letter (Smith's) and ask somebody else to answer it? It is not the kind that anybody else could answer.

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MR. BELL: He could say to Byrnes or Vinson, "Here, prepare a memorandum for me."

MR. WHITE: I think you can add that. I think you can say, "Mr. President, I would like to ask, on the basis of our long friendship, that I want a clear answer from my chief, and that no answer from anybody less can, in my opinion, remove the uncertainty which is making it so difficult for me to operate."

MR. BELL: "This condition exists and is becoming worse all the time."

H.M.JR: Or you can say, "I have come down here to serve you and no one else." That is true.

Kades, you look as though you are about to burst forth. (Laughter)

CAPT. KADES: Well, I still like Herbert's letter. I think that is the kind of a letter to send because I think it is a matter of record.

Now, Mr. Secretary, if you want to do something like this, if you want a very clear-cut expression from the President you could send him a draft of a letter addressed to you and to Byrnes and to Vinson which answers this letter.

H.M.JR: You mean send a draft?

CAPT. KADES: Yes.

H.M.JR: Now you have got an idea. If you don't mind my saying it, it is the first good idea you have had because it is the first one I liked. (Laughter) Now you have got an idea. That is what Hull does, and that is why I think Hull operates.

MR. WHITE: That is their regular technique. They write what they want for the President to initial or sign.

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What was your suggestion?

CAPT. KADES: To make a draft of the reply, with Herbert's letter.

MR. BELL: Then if he signs it, plant a question in the press conference for somebody to ask like this, "Who has charge of the tax program?"

H.M.JR: That is worthy of a spot promotion, Chuck. (Laughter)

CAPT. KADES: Depending, Mr. Secretary, on whether he signs it. (Laughter)

MR. WHITE: It is terrible to have a lot of advisors who all disagree, but apparently Kades has come out with a good suggestion.

H.M.JR: I like that.

MR. BELL: I like it. I do think that definitely throws it into the lap of somebody to consider besides the President because I don't think he would put his signature on it - he might, but I doubt if he would put his signature on it without first getting Byrnes' and Vinson's advice.

H.M.JR: He signed that letter for me stopping high test gas and scrap iron going out of the country without showing it to anybody. He changed it afterwards, but he did sign it in the first instance. (Laughter)

MR. GASTON: Yes, I remember it.

H.M.JR: I think that is the thing. At least that tells him what we want. If he wants to modify it, that is all right.

Look, gentlemen, if you don't mind, I am going to take the leadership. I am going to ask you whether you fellows can't - the four of you - (Gaston, Paul, Smith,

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and Kades) - go into Gaston's room and work on something, the letter and draft of an answer, and then try to get it to me before noon. That ought not to be so hard. Then the rest of us can see it.

MR. PAUL: I think there is a good deal about this Smith approach that I like. I am wondering if we can't put this letter into this form.

H.M.JR: Well, the four of you get together. But I want to give it to the President, the draft of a reply to me that Kades suggested.

The State Department has certainly been very successful using that. Then if it is a good, fair answer he doesn't have to show it to anybody.

MR. WHITE: That is the point. It can be fairly stated. There is a difference between this and the State. You are not reaching out to extend your powers. All you want is a reasonable arrangement which would remove the uncertainty about something that has existed. From that point of view it might well be that the President in reading the answer will say, "This seems to be a very reasonable approach to it. If you provide for the cooperation and"--

MR. BELL: Put in about the cooperation.

MR. GASTON: It has this virtue, that it shows definitely and concretely what you are asking for.

H.M.JR: I would put this in the letter. I would like to say this: "I don't think I have to tell you I have served you loyally for the last ten years. I have come down here just to serve you. I want to continue to do that, but in order to do that you have got to make it possible. All I want is to be able to continue in the future as I have in the past, to serve you loyally - and my country."

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MR. BELL: That has a little suggestion of resignation.

MR. SMITH: I think that is a matter of wording, though.

H.M.JR: Why don't you fellows go in there and - has anybody any doubts that we want to draft an answer for him?

MR. BELL: How are you going to get it public?

MR. SMITH: Let's get it private first.

MR. BELL: But that is the important thing.

MR. GASTON: Of course if you get, as Chuck suggested, a letter which is addressed to all three parties, giving them orders, they are not going to come out publicly and contradict that. They are going to recognize it. They are going to acknowledge that that is the setup.

H.M.JR: I think the thing is to get it first, and then the first time one of them goes overboard after he does the thing then it will be time to make this thing public.

MR. PAUL: What you can do, if you want to get it public, is be asked about it at the press conference.

MR. BELL: Let somebody ask the President.

MR. PAUL: Or the Secretary.

H.M.JR: It would come much better from him.

MR. GASTON: That is very simple. If you are put in charge of coordinating and formulating tax policies, you call a meeting over here and let the boys know. It will easily leak out that you have called a meeting.

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H.M.JR: And send a copy of it to George and Doughton.

MR. PAUL: That would make it public. (Laughter)

H.M.JR: I would send a copy to George and Doughton, and to Vandenberg and Knutson. There are plenty of ways to get it published.

I feel much better now. Do you feel better?

CAPT. KADES: Yes, sir, Mr. Secretary. I think that too many hands in the pot spoil the pie, or whatever it is. (Laughter) I think that Herbert and Fred Smith can do a much better job than all of us trying to get a phrase in.

MR. GASTON: We can work that out.

H.M.JR: Don't you want to sit in on it, Paul? It affects you so vitally.

MR. PAUL: I know the way Herb works. He likes to get off in a huddle with himself. I talk with him first, and then I talk with him after he has produced it.

MR. SMITH: I think that is the way to do it.

MR. GASTON: The best thing for us to do is go in and talk it over and find out where we are going. The drafting of the reply is going to be the difficult thing.

You are all for having a short, simple letter. I think this letter of Fred's is excellent. The only thing I fear is having the President put it down, "Well, this is just a personal quarrel. There is nothing in it but that - personal jealousies."

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H.M.JR: He knows better. Well, Herbert, I can increase the pressure on him if it is necessary. I can become more and more aggressive on the thing if necessary.

Ickes has been fairly successful that way. He has written ones like that, only much worse. He has gotten his oil; he has gotten everything else. He has written some terrific ones, but he doesn't stop - he always ends up by offering to resign. He does resign. I don't want to do that.

Go to it, boys, and let me know.

1st Smith draft 254

Dear Mr. President:

As a result of my letter to you on June 12, I had hoped to clear up two vital questions which, as long as they remain unanswered, make it unnecessarily difficult for me to proceed as the Secretary of the Treasury.

The two questions are these:

(1) Am I, or am I not, as the chief fiscal officer of the Government, charged with the responsibility of coordinating the various branches of the Government in the preparation of a tax plan?

(2) Is the Treasury to present such a tax plan, after it is completed, to the Congress?

In your reply to my letter, you partially answered the second of these questions. You said, "If I approve the tax plan, you will present it." This of course raises the possibility that a tax plan might be prepared, not necessarily at the direction of the Treasury, which you would not approve, and therefore I would not present it. So this is not really an answer at all.

The other question, as to whether work on the preparation will be coordinated under my direction, or whether under someone else's direction, was left completely unanswered.

Day after day I am told, or read in the press, that the Treasury is no longer in charge of tax matters, but that this job has been turned over to Byrnes, to Vinson, or to someone else. My people are asked to meet with others as though they were being coordinated, rather than doing the coordinating. Not knowing whether or not this is your desire, I am at a loss to know exactly what to do. This obviously is greatly slowing up work on the most vital tax operation in the history of our country.

Moreover, it is impossible for me to work under these circumstances. Frankly, I work too hard to be at sixes and sevens with all the self-appointed coordinators. I ask you, therefore, to clarify this by answering directly, and publicly, the two questions which I have asked.

If it is your desire to give the chief responsibility to someone else, please do it clearly, so there can be no misunderstanding. If you wish me to retain it, and you wish the Secretary of the Treasury to remain the chief fiscal officer, please also clarify this. Otherwise we will not get the necessary cooperation. Otherwise, also, we will be forced to sit quietly and continue to be undermined, and continue to read unfounded and unjustified criticisms of your Treasury and the Administration, many of which I can assure you are planted

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by other members of the Administration, and by others who would like to take over.

July 23, 1943
9:54 a.m.

257 ✓

HMJr: Hello.

Robert
Patterson: Hello. Henry?

HMJr: Good morning, Bob.

P: How are you?

HMJr: Fine. Your boys kind of pushed me yesterday morning
to sign that thing early, but I did.

P: There was no - as it turned out there was no rush.

HMJr: Oh-oh.

P: While the meeting was held....

HMJr: Yeah.

P:the Boss was called away....

HMJr: Oh.

P:in the middle of it to meet somebody or other and
so we never got into that topic but I told Justice
Byrnes to put it on for the next - the agenda for
next week and he said he was going to.

HMJr: I see.

P: So the rush was....

HMJr: Yeah.

P:as most rushes are, you know.

HMJr: It's all right.

P: You've got to rush to be ready but then....

HMJr: That's right.

P: the train doesn't come in on time.

HMJr: Right. Bob, I hope that what I'm doing will be not
misunderstood. You know you were kind enough to say
that on a week-to-week basis I could keep Captain
Kades....

P: That's right.

HMJr: Well, now, he's doing so well and would you have your military aide or whoever it is - would you look up - it seems to me he's due for a promotion.

P: Greenbaum is the fellow that looks those up.

HMJr: Well, uh....

P: I'll ask Greenbaum.

HMJr: You don't mind my bringing....

P: Yeah.

HMJr:it to your attention?

P: Oh, no. Greenbaum wanted it - Greenbaum wanted it understood that it was from week-to-week because he said he thought the man ought to go - he had some other work in mind for him here, but....

HMJr: That's entirely agreeable, but....

P:we may have to - we may have to snap him back.

HMJr: Now, now, now, now, now - I'll snap back that signature.

P: (Laughs) Well, I'll wait 'till I use it.

HMJr: (Laughs) Well, anyway, tell somebody. I think he must be almost due for a promotion.

P: Kades. Yes, I will.

HMJr: Thank you so much.

P: Are you going to the country?

HMJr: Am I?

P: Yeah.

HMJr: Only as far as New York. Are you going up?

P: How is your wife?

HMJr: Well, I - we - we're hoping to move her tomorrow.

P: To Fishkill?

HMJr: To Fishkill.

P: Good.

HMJr: We're hoping....

P: No, I've got to go to Chicago tonight. I don't believe I'll be up there this week-end. I was up there to do some haying last Sunday.

HMJr: Did you?

P: Yeah. Got in quite a lot - best hay I've ever seen.

HMJr: Wonderful. Did the Village ever take advantage of your ground that you offered them?

P: Yeah. Yeah, it's fully cultivated.

HMJr: Wonderful.

P: They only have to walk a mile....

HMJr: I see.

P:to that place and they can - all their cultivation they can do with hoes and rakes.

HMJr: Good.

P: They've got potatoes and vegetables in for about - oh, four acres, I think.

HMJr: I see.

P: There are probably twenty or thirty different parcels there. They seem to be - I noticed them Sunday - there were half a dozen people there hoeing away.

HMJr: Good. Well, that signature ought to be worth a couple of Kadeses anyway.

P: Yeah, a couple of weeks at any rate.

HMJr: (Laughs) Okay.

P: All right, Henry.

HMJr: Thank you.

P: Good bye.

HMJr: Bye.

July 23, 1943
1:50 p.m.

HMJr: Hello.

Senator
Clark: Henry?

HMJr: Yes.

C: Say, you know you fellows are about to ruin all the good Democrats that are left out in our part of the country by moving that headquarters from Jefferson City to St. Louis.

HMJr: Oh, really?

C: Sure enough.

HMJr: Is it as bad as all that?

C: Well, it is, Henry, because it so happens that we have never been able to secure any important munition plants or anything of that sort for central Missouri.

HMJr: I see.

C: And in spite of the fact that Truman and I didn't have a damn thing on the face of the earth to do....

HMJr: Yeah.

C:with the location of them in St. Louis and Kansas City.

HMJr: Yeah.

C: We hadn't ever been able to convince anybody out in central Missouri that he didn't locate those at Kansas City and I didn't locate those at St. Louis.

HMJr: I see.

C: I mean, it's really a damn sight more serious a proposition than it sounds like on its face.

HMJr: Yeah. I didn't - I just thought that - Truman called me up - it was, you know, it was....

C: I knew he had called you.

HMJr: What?

C: I knew he had called you.

- 2 -

- HMJr: And I just thought that he had said, "Well, I'll call Morgenthau and I'll tell him." And that was that - you know you fellows do that. I do it, too.
- C: Well, I know, Henry, but I'm telling you that it's really a very desperate situation out there because it really affects the war effort, and certainly is going to affect the purchase of those bonds.
- HMJr: Well, how will it affect the war effort?
- C: Well, it affects the war effort in this way - by the purchase of bonds.
- HMJr: Oh.
- C: Those people out in central Missouri are just as furious as they can possibly be.
- HMJr: Well, Bennett, let me take a fresh look at it.
- C: Well, would you do that, Henry?
- HMJr: I'll do it today.
- C: I mean - I - it's not anything that I'm just calling you about because it's really a very serious situation.
- HMJr: Well, I always try to be helpful.
- C: I know you do.
- HMJr: And....
- C: I always appreciate it, too.
- HMJr:I went along with you fellows on your collector out there.
- C: You certainly did and incidentally you got the best collector in the United States, didn't you?
- HMJr: And I'm glad I did. Well, give me a look and I'll....
- C: Henry.
- HMJr: Yeah.
- C: I wish you would look the thing over - not as a purely administrative measure but as - it's really a feeling in the central part of Missouri that they have been completely

- 3 -

C:
(Cont'd) ignored and mistreated.

HMJr: Well, let me....

C: You're not responsible....

HMJr:if we left part of the office there - how would that be?

C: All right. Do the best you can.

HMJr: I'll do that.

C: Thank you very much, Henry.

HMJr: I'll let you know.

C: Thank you.

July 28, 1948

Ted Gamble

Secretary Morgenthau

Sen. Clark just called me about keeping an office of the War Finance Organization at Jefferson City. Since both Sen. Clark and Sen. Truman are interested in this matter, I believe that we should at least maintain a branch office at Jefferson City, and I think we ought to get out some telegrams to that effect. I would like to talk to you about it as soon as I return this afternoon. *Finished*

July 23, 1943
3:25 p.m.

TAXES

Present: Mr. Bell
Mr. Gaston
Mr. Paul
Mr. White
Mr. Smith
Mrs. Klotz

(Draft of letter to the President handed to the Secretary by Mr. Gaston, copy attached.)

H.M.JR: I will read it.

"My dear Mr. President: I am badly in need of your help and guidance in the matter of tax policy and Treasury relations with others in the Administration and with Congress. The situation now seems to be one of muddle and confusion which I think only you can clear up. This state of affairs is interfering seriously with my effectiveness as your Secretary of the Treasury. It is making it extremely difficult for me to discharge one of the most important and harassing duties you have committed to me as I have been doing over the last ten years."

That sentence is bad - "committed to me as I have been doing."

MR. PAUL: That is right, discharging duties as you have been.

H.M.JR: Would you say, "committed to me" comma?

MR. PAUL: I think it would be better to leave it out.

H.M.JR: What, that whole sentence?

- 2 -

MR. PAUL: No, just "as I have been doing." We put that in in deference to your thought.

MR. GASTON: The sentence is technically all right. You could have a comma in. The other is better.

H.M.JR: I would say, "which I have been doing."

I will see if there is anything else.

"It is doing most" - what is "it"?

MR. GASTON: The same thing.

H.M.JR: "It is doing most serious harm to your whole program, particularly on the fiscal and counter-inflationary front."

What does "your whole program" refer to, what whole program?

MR. GASTON: The whole program of the Administration. We get into particulars on it later.

H.M.JR: I don't think that is clear.

MR. GASTON: I think it is a pretty definite statement when you say that it is doing most serious harm to the President's whole program. It is the whole program of the action of the Administration.

MR. PAUL: Even the military.

MR. SMITH: Say "It is doing most serious harm" period.

MR. PAUL: We say that later. The sentence could be omitted. We say later that it is doing serious harm and in what particulars.

H.M.JR: "You have committed to me" - I don't like that.

- 3 -

MR. WHITE: Say "It makes it very difficult for me to continue as I have in the past to discharge ..."

H.M.JR: I think that whole sentence can be left out, that it is doing harm.

MR. PAUL: Where do you want to stop, after "committed to me"?

H.M.JR: I am cutting out "as I have been doing over the last ten years."

MR. WHITE: I should like to see it cut out.

H.M.JR: That sentence?

MR. WHITE: I think it would be better.

MR. GASTON: The difficulty is you get it down to merely a personal grievance then.

How would it be if you say, "It is doing most serious harm to your whole fiscal program"?

H.M.JR: That is all right.

Harry, you go along with that?

MR. WHITE: Yes.

H.M.JR: "What I need most urgently is a clear answer to the question whether you look to me, as you have in the past" - seeing I have cut out "as I have been doing over the last ten years" I can say--

MR. GASTON: Say, "as you have during all of the last ten years."

H.M.JR: Just say, "... during the last ten years, to take charge of coordinating opinion" - what opinion?

MR. GASTON: Opinion and advice within the Administration on a tax program.

- 4 -

H.M.JR: It doesn't say that.

MR. GASTON: Yes, it does.

H.M.JR: "... to take charge of coordinating opinion and advice"--

MR. GASTON: "... within the Administration and of formulating a tax program" - opinion and advice coordinated for the purpose of formulating a tax program could only be opinion and advice on the tax program.

H.M.JR: Do you mind bringing that up there - "... take charge of coordinating opinion and advice on a tax program"?

MR. PAUL: Then it ought to be "... within the Administration on a tax program in formulating such a program."

H.M.JR: "... take charge of formulating"--

MR. PAUL: "... take charge of coordinating opinion and advice within the Administration on a tax program and of formulating such a program for presentation to you."

H.M.JR: That is all right.

"Doubt and confusion were created some time ago by newspaper stories saying that Mr. Byrnes as Director of War Mobilization was to be the Administration's 'tax policy maker.' The stories were said to have been based on statements made by Mr. Byrnes. Inspiration is now being given to a new crop of stories. One by John Crider in last Wednesday's New York Times is typical. I am enclosing a copy of it. It represents Mr. Vinson, the Economic Stabilization Director, as having assumed charge of formulating an Administration tax program and suggests also that Mr. Vinson, and not the Treasury, may present the program to Congress."

- 5 -

"Such stories, and the rumors which are being circulated about the country, do a great deal of harm. They make it practically impossible for us to continue to seek the advice of other agencies of the Government on tax matters as we have been conscientiously attempting to do. They hamper most seriously our dealings with members of the committees of Congress and the staff of the Joint Committee. They exercise a blighting effect on the work of the Treasury staff. Most important, they put you and your entire Administration into a weak position on the tax front.

"The picture being presented is one of indecision and controversy within the Administration. In such an atmosphere it seems plain to me that it will be very difficult for you to impress Congress and the country with the importance of the tax proposals I feel sure you will want to make."

There are so many sentences which aren't the way I would say them.

MR. WHITE: Could I ask you to read aloud those two sentences again?

H.M.JR: Harry, I am not going to be able to send it out, anyway. I have a plane waiting. I can't do this thing. It is no good, anyway.

Haven't you seen it before?

MR. WHITE: Yes, I read it.

H.M.JR: Do you mind? It isn't the way I want it, anyway.

"I know that I am in entire agreement with you in believing that we need much heavier taxes both for revenue and to combat inflation. A different view seems to prevail on the Hill.

- 6 -

"To meet this situation the Administration needs to speak with a clear voice. A chorus of voices, each seeming to represent the Administration, can't be a clear voice. What is being whittled away by rumor, by undermining, and by infiltration in the corridors and the press is not merely the prestige and authority of the Treasury, but also the prestige and authority of your Administration and its ability to discharge adequately its duty and responsibility to the Nation.

"Whether Justice Byrnes, Judge Vinson or I as Secretary" - no, I can't--

MR. GASTON: It should be "... I as Secretary of the Treasury..."

H.M.JR: There is so much here that I can't - it is so confused. I can't accept this, I am sorry. I don't know whether there were too many cooks or what, but - who is going to be here tomorrow? Herbert, are you on tomorrow?

MR. GASTON: I think I will be here tomorrow. I am always here.

MR. PAUL: I will probably be here.

MR. SMITH: It seems to me that is exactly what you want to say only "ain't" the way you want to say it. Isn't it a matter of colloquializing?

H.M.JR: No, the sentences aren't clear to me.

MR. SMITH: That is the point. You don't talk in involved sentences, and you take one thing at a time.

MR. BELL: It is about the thing you want to say, but you want to say it in your language rather than in involved sentences.

MR. WHITE: I think they could work over that with a little more time and get what you want. You might go

- 7 -

through it again and indicate certain ideas which aren't suitable.

H.M.JR: I have done it so much, Harry, and I am fighting time. I have done it so often.

MR. WHITE: Let them work some more over it.

MR. GASTON: Is there anything not in here that you particularly want to have in?

H.M.JR: Yes, there are those two sentences, that one and two I definitely want in - or do you think you will leave that out now that you have the order?

MR. BELL: Yes. You see, one of them raised some doubt.

MR. GASTON: The two are in one sentence here. They are not separated.

(Order addressed to the Secretary of the Treasury, the Director of War Mobilization, and the Director of Economic Stabilization handed to the Secretary by Mr. Gaston, copy attached.)

H.M.JR: The order is good.

MR. SMITH: Does that have the changes on that Messrs. Kades and White want?

MR. GASTON: No.

MR. SMITH: They suggest - and Dan, too - that first of all there ought to be a reason on this thing, that you shouldn't just start out like this.

They would like to say, "In order to allay the uncertainties being created by newspaper articles and discussions, I want to make it clear that the Secretary of the Treasury as the chief fiscal officer"--

- 8 -

H.M.JR: No, definitely not. That is out. This is a perfectly dignified statement.

MR. BELL: It seems to me it comes out of a clear sky.

MR. PAUL: I would like to take this - I think part of the difficulty you have with this is because you feel such a pressure to get that plane. A few minor changes, and I think this other statement is very good.

H.M.JR: I don't want to be critical, but some of the sentences, at least in my poor brain, are involved. I mean, they are not clean, they are not clear-cut.

You say you will do them - I can't, and it is unfair to criticize--

MR. PAUL: With more time it can be somewhat more colloquialized, but that takes more time.

H.M.JR: Will you people have a chance at it? Then I tell you what you could do. Take another chance at it, and then the thing could be read over the telephone to me some time tomorrow. It could be given to a Secret Service man, and he could come up there Sunday. I could sign it Sunday, and he could bring it back, and you could give it to the President Monday.

MR. PAUL: I think that given a little time--

H.M.JR: There is enough talent here. Each one of you individually can write clean, clear-cut sentences.

MR. PAUL: That is part of the trouble, too many people in too much of a rush on it.

MR. WHITE: I think they are close to the end on this.

- 9 -

H.M.JR: Would you mind, Herbert, doing it once more?

MR. GASTON: Not a bit, no.

H.M.JR: And Fred?

MR. SMITH: Yes.

H.M.JR: The trouble is we have tried to take two different approaches and meld them, with the result that there are really too many ideas there.

MR. GASTON: I think the trouble is that we have looked so long at the thing.

MR. PAUL: We need a day off from it.

H.M.JR: Why not tackle it tomorrow morning?

MR. PAUL: Half a day off? Better than nothing.
(Laughter)

July 23, 1943.

My dear Mr. President:

I am badly in need of your help and guidance in the matter of tax policy and Treasury relations with others in the Administration and with Congress. The situation now seems to be one of muddle and confusion which I think only you can clear up. This state of affairs is interfering seriously with my effectiveness as your Secretary of the Treasury. It is making it extremely difficult for me to discharge one of the most important and harassing duties you have committed to me as I have been doing over the last ten years. It is doing most serious harm to your whole program, particularly on the fiscal and counter-inflationary front.

What I need most urgently is a clear answer to the question whether you look to me, as you have in the past, to take charge of coordinating opinion and advice within the Administration and of formulating a tax program for presentation to you.

Doubt and confusion were created some time ago by newspaper stories saying that Mr. Byrnes as Director of War Mobilization was to be the Administration's "tax policy maker." The stories were said to have been based on statements made by Mr. Byrnes. Inspiration is now being given to a new crop of stories. One by John Crider in last Wednesday's New York Times is typical. I am enclosing a copy of it. It represents Mr. Vinson, the Economic Stabilization Director, as having assumed charge of formulating an Administration tax program and suggests also that Mr. Vinson, and not the Treasury, may present the program to Congress.

Such stories, and the rumors which are being circulated about the country, do a great deal of harm. They make it practically impossible for us to continue to seek the advice of other agencies of the Government on

- 2 -

tax matters as we have been conscientiously attempting to do. They hamper most seriously our dealings with members of the committees of Congress and the staff of the Joint Committee. They exercise a blighting effect on the work of the Treasury staff. Most important, they put you and your entire Administration into a weak position on the tax front.

The picture being presented is one of indecision and controversy within the Administration. In such an atmosphere it seems plain to me that it will be very difficult for you to impress Congress and the country with the importance of the tax proposals I feel sure you will want to make. I know that I am in entire agreement with you in believing that we need much heavier taxes both for revenue and to combat inflation. A different view seems to prevail on the Hill.

To meet this situation the Administration needs to speak with a clear voice. A chorus of voices, each seeming to represent the Administration, can't be a clear voice. What is being whittled away by rumor, by undermining, and by infiltration in the corridors and the press is not merely the prestige and authority of the Treasury, but also the prestige and authority of your Administration and its ability to discharge adequately its duty and responsibility to the Nation.

Whether Justice Byrnes, Judge Vinson or I as Secretary continue to carry forward a traditional Treasury responsibility is not nearly so important as having the matter settled now and settled in such a way that all of the agencies concerned as well as the public will understand it.

The matter would be cleared up quickly and finally if you were to approve such a directive as that which I enclose. In any event, I earnestly urge that you advise me promptly whether you wish me to continue to be in

- 3 -

charge of coordinating opinion within the Administration on tax policies, and of presenting your tax program to Congress.

Faithfully,

Secretary of the Treasury.

The President

The White House

Secretary took up at Cabinet on

July 23, 1943.

Comparison of 1st War Loan, 2nd War Loan, and
the Contemplated 3rd War Loan. 277

(In millions of dollars)

	1st War Loan Dec 1942	2nd War Loan Apr. 1943	3rd War Loan Sept. 1943
Goal	9.000	13.000	15.000
Non-banking sources:			
Individual, partnerships and personal trust accounts	1.589	3.290	5,000
Insurance Companies	1.677	2.408	} 3,000
Mutual Savings banks	609	1.195	
Elementary institutions	53	117	} 6,400
State and local governments	194	503	
Other Corporations & Assns.	2,599	5,038	
Total	6,721	12,550	14,400
Commercial banks	5,072	5,058	—
Dealers & brokers	881	544	600
U. S. Government trust accounts	263	391	—
Total	6,216	5,993	600
Total all sources.	12,937	18,543	15,000.

Break this up at Cabinet

D R A F T

July 23, 1943

MEMORANDUM ON THE FIRST, SECOND, AND
CONTEMPLATED THIRD WAR LOANS

First War Loan: The goal of the first war loan -- December 19, 1942 -- was to raise \$9 billion, of which about \$5 billion was to come from the banks and \$4 billion from non-banking sources. In that drive we raised a total of \$12,937,000,000, of which approximately \$7 billion came from non-banking sources and just under \$6 billion came from commercial banks and dealers.

Second War Loan: The Second War Loan -- April, 1943 -- was to raise \$13 billion, of which \$5 billion was to come from banks and \$8 billion from non-banking sources. We raised a total of \$18,543,000,000, of which over \$13 billion came from non-banking sources and just over \$5 billion came from commercial banks and dealers.

Third War Loan: We contemplate starting the Third War Loan September 9, 1943, and we have set as a goal \$15 billion, all to come from non-banking sources with the exception of possibly \$600 million which will come from dealers and brokers. It is significant to point

- 2 -

out that we contemplate selling \$5 billion to individuals, partnerships and personal trust accounts in this drive as compared with actual sales of \$3,290,000,000 in the Second War Loan and \$1,589,000,000 in the First War Loan Drive. We contemplate selling a total of \$3 billion ^{of securities} to insurance companies and mutual savings banks in the Third War Loan as compared with \$3,600,000,000 in the Second and \$2,300,000,000 in the First War Loan Drive. In the Second War Loan Drive there was a substantial shift by these institutions from short-term securities into the longer and higher coupon securities in the Drive. We do not believe that there will be as much of a shift in the Third War Loan Drive, which is the reason for the lesser figure in the next drive. From all other non-banking sources we expect to raise \$6,400,000,000 as compared with \$5,600,000,000 in the Second War Loan and \$2,800,000,000 in the First. We are getting practically all of the current accumulations from these investors, which is the reason for the small increase in the Third War Loan over the Second War Loan.

July 23, 1943

My dear Mr. President:

I am sending you enclosed herewith two proclamations by Woodrow Wilson in connection with the Liberty Loan Drives of World War I.

In view of what Woodrow Wilson did during World War I, I hope you will reconsider and give me a proclamation in connection with our Third War Loan Drive. It would be most helpful. I do not see why you would have to give anybody else a proclamation as no other money-raising drive can compare in size or importance with our Third War Loan.

Sincerely yours,

The President,

The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1943

TO THE SECRETARY
FROM TED R. GAMBLE *T.R.G.*

For your information, President Wilson issued the enclosed two Proclamations in connection with the Liberty Loan Drives.

I know of no such single device that would be more helpful to us than to have the Proclamation for the Third War Loan.

We have taken for ourselves a responsibility which, if successfully carried out, means that we must bring the great masses of our country face to face with the two-fold purpose of paying for the war and combating inflation.

It is not a job that can be done by words, but if we can clear the path for the hundreds of thousands of volunteer workers who are now being trained to do this job then we have made an important contribution to our Field Organizations.

The value of space and time already arranged for the Third War Loan runs well over ten million dollars. It will, by all odds, be the greatest advertising promotional effort ever made in this country which is an additional reason for wanting to have an important message from our Commander-in-Chief to spear-head various and appropriate phases of our campaign.

PROCLAMATION ON THE SECOND LIBERTY LOAN

The Second Liberty Loan gives the people of the United States another opportunity to lend their funds to their Government to sustain their country at War. The might of the United States is being mobilized and organized to strike a mortal blow at autocracy in defense of outraged American rights and of the Cause of liberty. Billions of dollars are required to arm, feed, and clothe the brave men who are going forth to fight our country's battles and to assist the nations with whom we are making common cause against a common foe. To subscribe to the Liberty Loan is to perform a service of patriotism.

Now, therefore, I, Woodrow Wilson, President of the United States of America, do appoint Wednesday, the 24th of October, as Liberty Day, and urge and advise the people to assemble in their respective communities and pledge to one another and to the Government that represents them the fullest measure of financial support. On the afternoon of that day I request that patriotic ~~meetings~~ ^{gatherings} be held in every city, town and hamlet throughout the land under the general direction of the Secretary of the Treasury and the immediate direction of the Liberty Loan Committees which have been organized by the Federal Reserve Banks. The people responded nobly to the call of the first Liberty Loan with an over subscription of more than 50 percent. Let the response to the Second Loan be even greater and let the amount be so large that it will serve as an assurance of unequalled support to hearten the men who are to face the fire of battle for us. Let the result be so impressive and emphatic that it will echo throughout the empire of our enemy as an index of what America intends to do to bring this war to a victorious conclusion.

Proclamation - Page 2

For the purpose of participating in Liberty Day celebrations all employees of the Federal Government throughout the country whose services can be spared, may be excused at 12 o'clock, Wednesday, the 24th of October.

WOODROW WILSON

PROCLAMATION ON THE THIRD LIBERTY LOAN

An enemy who has grossly abused the power of organized Government and who seeks to dominate the world by the might of the sword, challenges the rights of America and the liberty and life of all the free nations of the earth. Our brave sons are facing the fire of battle in defense of the honor and rights of America and the liberty of nations. To sustain them and to assist our gallant associates in the war, a generous and patriotic people have been called upon to subscribe to the 3rd Liberty Loan.

Now, therefore, I, Woodrow Wilson, President of the United States of America, do appoint Friday, the 26th day of April, One Thousand Nine-Hundred and Eighteen, as Liberty Day. On the afternoon of that day I request the people of the United States to assemble in their respective communities and liberally pledge anew their financial support to sustain the nation's cause. Patriotic demonstrations should be held in every city, town and hamlet throughout the land under the general direction of the Secretary of the Treasury and the immediate direction of the Liberty Loan Committees organized by the Federal Reserve Banks. Let the nation's response to the 3rd Liberty Loan express in unmistakable terms the determination of America to fight for peace, the permanent peace of justice.

For the purpose of participating in Liberty Day celebrations, all employees of the Federal Government throughout the country whose services can be spared, may be excused at 12 o'clock noon, Friday, the twenty-sixth of April.

Proclamation - Page 2

In witness whereof, I have hereunto set my hand and caused the seal of the United States to the affixed.

Done in the District of Columbia, this eighteenth day of April in the year of our Lord One Thousand Nine Hundred and Eighteen, and of (Seal) the Independence of the United States of America the One Hundred and Forty-Second.

WOODROW WILSON

By the President:

Robert Lansing, Secretary of State

D

THE WHITE HOUSE
WASHINGTON

July 21, 1943.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

I doubt very much that I can issue a proclamation for another drive. I don't think it has been done before, and if I once start it for the Treasury, I will have to comply with all requests of this kind.

I think a statement to the press -- which can be carried on the radio also -- is a better way of handling it.

F.D.R.

TO:

Secretary Morgenthau

287 ✓

○
This goes on the cover of the
portfolio of newspaper advertisements
of the Third War Loan, and War Bonds
would like to have you sign it.

↗

Inc.

orig ltr ret'd to Mr Smith

Fred Smith
Room 290½

7/53/43

TO NEWSPAPER PUBLISHERS:

On September 9th the Treasury will launch the 3rd War Loan -- the greatest drive for dollars ever attempted anywhere at any time. It will aim at raising the largest amount of money from individuals that any drive has raised in the history of the world.

It will be in the truest sense a people's loan. This money must be raised if we are to keep pace with our fighting men and at the same time keep down the cost of living.

In bringing home to the American people a sense of the extreme urgency and importance of reaching our 3rd War Loan goal, the newspapers of the Nation, through their advertising columns, provide a sure, direct avenue of approach. This was most magnificently demonstrated in the 2nd War Loan when over 72,600,000 lines of War Bond advertising appeared in newspapers. I am confident, therefore, that the Treasury can again count upon you, and upon the many patriotically-minded sponsors of War Bond advertising who have contributed so much to the success of the war financing program in the past, to back the 3rd War Loan to the fullest extent.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

Original ltr. ret. to F. Smith
Copy in Diary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1943

TO Secretary Morgenthau
FROM Fred Smith (RS)

[Handwritten signature]

You asked about the background of the little boy on the new War Loan poster. Here it is:

Donald Devlin - 8 years old, in the 4th year of school. Born in Brooklyn of Scottish parents. Mr. and Mrs. Devlin came to this country in 1922 - both are citizens of the United States. Mr. Devlin is employed by the Gulf Oil Company, in charge of supplies. He served in World War I in the British Navy, enlisting at the age of 16. The Devlins have a great many relatives now in Scotland, many of them in the British Army. Cousins of Mrs. Devlin in Aberdeen, have recently been bombed. Mr. Devlin has a brother in the United States Marine Corps. Donald has a brother 11 years old.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 23, 1943

TO Secretary Morgenthau
FROM Fred Smith (FS)

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, July 23, 1943.

Press Service
No. 37-72

Secretary of the Treasury Morgenthau announced last night that the subscription books for the receipt of cash subscriptions to the current offering of 7/8 percent Treasury Certificates of Indebtedness of Series D-1944 closed at the close of business Thursday, July 22. Cash subscriptions for this issue of certificates were restricted to commercial banks for their own account.

The subscription books will close at the close of business tonight, July 23, for the receipt of subscriptions in payment of which Treasury Certificates of Indebtedness of Series B-1943, maturing August 1, 1943, are tendered.

Subscriptions of either class addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight of the respective closing days will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash and exchange subscriptions, and the basis of allotment for cash subscriptions, will probably be made on Tuesday, July 27.

JUL 23 1943

Dear Mr. Stans:

In response to your request of July 14, 1943, addressed to Mr. Paul, for data in connection with the individual income, corporation income, declared value excess profits, excess profits, and capital stock taxes, distributed by income classes, showing actual data for the calendar year 1940 and estimated data for the calendar years 1941, 1942 and 1943, there are enclosed six tables.

Two of these tables summarize the data requested for the calendar year 1940 as reported in Statistics of Income. A third table, which had already been prepared, furnishes an historical comparison of the net income, income taxes, and dividends of corporations, 1936-1943, and contains the only estimated data available for corporate returns with no net income. The fourth table presents aggregate corporate data for the calendar years 1942 and 1943 to the extent they are available. Some of the items ordinarily are not needed for our purposes and so are not estimated, and in other cases detailed estimates requiring considerable time would be involved. The fifth table presents aggregate individual income tax data for the calendar year 1943, and the sixth table summarizes individual income tax data by net income classes, with respect to number of taxpayers, the regular income tax net income, Victory tax net income, and tax liability. Distributions of the remaining individual income tax data requested by net income classes are not available. Their preparation would involve analysis requiring considerably more time than you have indicated in your request.

Your estimated individual income tax data for the calendar years 1941 and 1942 are not available, inasmuch as past estimates are not needed in making current estimates of liability and therefore have not been adjusted so as to be consistent with actual tax yields. For the same reason corporate data are not available for the calendar year 1941 except for the historical material in the table which had already been prepared.

Very truly yours,

(Signature)

Secretary of the Treasury

Mr. Colin P. Stans
Chief of Staff, Joint Committee
on Internal Revenue Taxation
Washington, D. C.

Handled by Paul's office.
Copy of ltr. and Photos of
tables in Diary.

enclosures

PLM:THive 7-23-43

Number of taxable individual and fiduciary income tax returns, components determining their taxable income, and their tax liability reported in Statistics of Income for 1940, Part 1

(Dollar amounts in millions; number of taxable returns in thousands)

	Returns with normal tax and surtax 1/	Returns with alternative tax net long-term capital gain 2/	Returns with alternative tax net long-term capital loss 3/	All taxable returns
Number of taxable returns	7,479	9	17	7,505
Ordinary net income	\$22,004	\$548	\$1,008	\$23,555
Personal exemption	\$ 9,445	\$ 14	\$ 26	\$ 9,485
Credit for dependents (individual returns)	\$ 908	\$ 8	\$ 5	\$ 916
Surplus net income	--	--	--	\$15,154 5/
Earned income credit (individual returns)	\$ 1,876	\$ 8	\$ 15	\$ 1,899
Interest on partially tax-exempt Government obligations	--	--	--	\$ 65 4/
Net income subject to normal tax	--	--	--	\$11,191 5/
Normal tax	\$ 589	\$ 21	\$ 88	\$ 698
Surplus	\$ 455	\$171	\$ 314	\$ 940

Treasury Department,
Division of Research and Statistics.

July 21, 1943.

Note: Figures including estimates described in footnotes 3/, 4/ and 5/ have been rounded, and will not necessarily add to totals.

- 1/ Statistics of Income for 1940, Part 1, Table 2, Part II.
- 2/ Statistics of Income for 1940, Part 1, Table 2, Part III.
- 3/ Estimated: Ordinary net income minus the sum of personal exemption and credit for dependents.
- 4/ Estimated: Surplus net income minus earned income credit minus net income subject to normal tax.
- 5/ Estimated: Normal tax capitalized at 4 percent.

Data with respect to corporate income, declared value excess profits, excess profits, and capital stock taxes, at levels of income for corporations for the calendar year 1940

(Dollar amounts in millions; number of returns in thousands)

	All returns	Returns with net income	Returns with no net income
Corporation income and declared value excess profits tax data --			
Total number of returns 1/	517	221	252
Number of taxable returns		174	--
Net income 2/		\$11,203.2	\$-2,283.8
Interest received on government obligations subject to declared value excess profits tax		\$ 281.8	\$ 72.8
Wholly tax-exempt interest		\$ 202.9	\$ 225.9
Dividends received from domestic corporations		\$ 1,852.2	\$ 168.5
Aggregate dividends paid in cash and assets other than company's own stock		\$ 5,888.3	\$ 200.5
Dividends received credit 3/		--	--
Net income for declared value excess profits tax 4/		\$11,203.2	--
Net operating loss deduction 3/		--	--
Adjusted net income 3/		--	--
Normal tax net income 4/		\$11,203.2	--
Normal tax		\$ 2,144.3	--
Declared value excess profits tax		\$ 30.7	--
Corporation excess profits tax data --			
Number of taxable returns		13	--
Excess profits net income 5/		\$ 2,997.9	--
Specific exemption 5/		\$ 67.2	--
Excess profits credit 5/		\$ 2,019.1	--
Unused excess profits credit 3/		--	--
Adjusted excess profits net income 5/		\$ 911.6	--
Excess profits tax 5/		\$ 373.5	--
Postwar refund of excess profits tax 3/		--	--
Corporation capital stock tax data --			
Number of taxable returns 3/		--	--
Declared value of capital stock 3/		\$ 132.7	--
Capital stock tax 6/		--	--

Treasury Department, Division of Research and Statistics. July 21, 1943.

Source: Statistics of Income, 1940, Part 2. This publication is in process of preparation and figures should be considered preliminary and confidential until released.

The figure for "All returns" includes 43,741 inactive corporations. In the case of returns with net income, the net income figure shown is for both taxable and nontaxable returns. Net income or deficit is the amount reported for declared value excess profits tax computation adjusted by excluding net operating loss deduction.

Not reported in Statistics of Income. Net income is the amount reported for declared value excess profits tax computation adjusted by excluding net operating loss deduction (items 30 and 26, respectively, page 1, Form 1120). Returns with excess profits tax liability only. Actual receipts for fiscal year ended June 30, 1940.

Net income, income taxes and dividends of corporations, 1936-1943

(Amounts in millions of dollars)

	All returns								Returns with net income								Returns with no net income							
	Actual				Estimated				Actual				Estimated				Actual				Estimated			
	1936	1937	1938	1939	1940	1941	1942	1943	1936	1937	1938	1939	1940	1941	1942	1943	1936	1937	1938	1939	1940	1941	1942	1943
Net income including dividends received and tax-exempt interest	7,771	7,830	4,151	7,175	9,548	16,500	21,640	23,700	8,738	8,548	4,725	5,028	11,405	16,000	20,450	24,900	-1,955	-2,015	-2,934	-1,750	-2,098	-3,400	+ 800	-1,200
Less: Dividends received from domestic corporations $\frac{1}{2}$	7,771	7,830	4,151	7,175	9,548	16,500	21,640	23,700	8,738	8,548	4,725	5,028	11,405	16,000	20,450	24,900	177	143	166	126	169	200	200	200
Net income excluding dividends received	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-2,132	-2,158	-3,100	-1,876	-2,267	-3,600	-1,400	-1,400
Less: Tax-exempt interest $\frac{1}{2}$	728	741	712	751	800	800	800	800	486	493	420	461	496	500	600	600	728	741	712	751	800	800	800	800
Net income excluding dividends received and tax-exempt interest	4,795	4,807	1,506	4,508	8,548	15,500	19,500	21,000	4,714	4,551	4,000	4,196	9,603	15,500	20,000	24,000	-2,564	-2,597	-3,234	-2,176	-2,498	-3,800	-1,200	-1,000
Tax and excess profits taxes	1,025	1,057	554	1,215	2,144	3,750	4,300	4,500	1,025	1,057	554	1,215	2,144	3,750	4,300	4,500	145	176	--	--	374	1,400	7,900	1,900
Income tax	145	176	--	--	774	3,400	7,700	9,500	22	--	--	--	374	1,400	7,900	1,900	--	--	--	--	--	--	--	--
Undistributed profits tax	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Excess profits tax (net)	22	41	5	35	31	50	100	100	22	41	5	35	31	50	100	100	--	--	--	--	--	--	--	--
Net income excluding tax and excess profits taxes	1,181	1,276	866	1,232	2,549	7,200 $\frac{1}{2}$	11,770 $\frac{1}{2}$	13,490 $\frac{1}{2}$	1,181	1,276	866	1,232	2,549	7,200 $\frac{1}{2}$	11,770 $\frac{1}{2}$	13,490 $\frac{1}{2}$	1,181	1,276	866	1,232	2,549	7,200 $\frac{1}{2}$	11,770 $\frac{1}{2}$	13,490 $\frac{1}{2}$
Ratio of total income and excess profits taxes to:																								
Net income excluding dividends received but including tax-exempt interest (percent) ..	21.4	24.8	36.7	21.4	34.6	50.3	51.4	50.4	16.5	17.4	15.9	17.4	15.3	15.7	15.0	15.7	21.4	24.8	36.7	21.4	34.6	50.3	51.4	50.4
Net income excluding dividends received and tax-exempt interest (percent)	27.3	29.0	53.5	27.3	39.0	53.3	50.5	49.3	17.7	18.2	16.4	18.2	15.3	15.7	15.0	15.7	27.3	29.0	53.5	27.3	39.0	53.3	50.5	49.3
Net income after deduction of income and excess profits taxes:																								
Net income excluding dividends received but including tax-exempt interest	3,901	3,870	1,480	4,040	4,718	7,300	8,700	8,700	3,901	3,870	1,480	4,040	4,718	7,300	8,700	8,700	-2,178	-2,186	-3,196	-1,977	-2,298	-3,700	-1,000	-1,000
Net income excluding dividends received but including tax-exempt interest	3,179	3,139	748	3,278	3,995	6,300	7,500	7,500	3,179	3,139	748	3,278	3,995	6,300	7,500	7,500	-2,344	-2,507	-3,447	-2,276	-2,526	-4,000	-1,200	-1,000
Net income excluding dividends received and tax-exempt interest	4,795	4,832	1,229	3,541	4,066	4,500	4,000	4,000	4,795	4,794	1,155	1,701	4,036	4,400	4,000	3,900	4,795	4,832	1,229	3,541	4,066	4,500	4,000	4,000
Net dividends paid $\frac{1}{2}$	4,795	4,832	1,229	3,541	4,066	4,500	4,000	4,000	4,795	4,794	1,155	1,701	4,036	4,400	4,000	3,900	4,795	4,832	1,229	3,541	4,066	4,500	4,000	4,000
Ratio of net dividends paid to net income after tax deduction:																								
Net income excluding dividends received but including tax-exempt interest (percent) ..	120.5	124.7	217.2	95.1	85.1	63.4	45.1	45.7	71.5	70.1	74.4	63.1	57.6	50.2	42.8	38.4	120.5	124.7	217.2	95.1	85.1	63.4	45.1	45.7
Net income excluding dividends received but including tax-exempt interest	147.5	154.7	280.4	117.1	101.8	71.4	54.1	50.2	82.4	80.0	85.6	68.1	61.9	53.0	45.7	40.1	147.5	154.7	280.4	117.1	101.8	71.4	54.1	50.2
Net income excluding:																								
Net income including dividends received but including tax-exempt interest	- 800	- 960	-1,740	- 179	- 710	-2,500	-4,700	-4,700	- 800	- 960	-1,740	- 179	- 710	-2,500	-4,700	-4,700	-2,195	-2,271	-3,227	-2,295	-2,295	-3,800	-1,100	-1,500
Net income including dividends received and tax-exempt interest	-1,524	-1,701	-2,474	- 566	- 717	-3,000	-3,900	-3,900	-1,524	-1,701	-2,474	- 566	- 717	-3,000	-3,900	-3,900	-2,191	-2,545	-3,179	-2,534	-2,557	-3,800	-1,300	-1,700

July 17, 1943

Treasury Department, Division of Research and Statistics.

NOTE: Figures are rounded and are not necessarily additive.

- Dividends from domestic corporations subject to income taxation under the Federal tax law when in the amount used for completion of the dividends received credit.
- Includes both partially and wholly tax-exempt interest.
- Excludes the effect of the carryback of net operating losses and the carryback of losses excess profits credit.
- Dividends paid to cash and assets other than companies' own stock less dividends received from domestic corporations.

Data with respect to corporate income, declared value excess profits, excess profits, and capital stock taxes, at estimated levels of income for corporations with net income for the calendar years 1942 and 1943

(Money amounts in millions of dollars)

	Calendar year	
	1942	1943
<u>Corporation income and declared value excess profits tax data --</u>		
Total number of returns	Not available	Not available
Number of taxable returns	Not available	Not available
Net income <u>1/</u>	20,500.0	23,000.0
Partially and wholly tax-exempt interest received	600.0	600.0
Dividends received from domestic corporations subject to tax	1,350.0	1,300.0
Aggregate dividends paid in cash and assets other than company's own stock <u>2/</u>	4,000.0	3,900.0
Dividends received credit	1,140.0	1,095.0
Net income for declared value excess profits tax	Not available	Not available
Net operating loss deduction	250.0	200.0
Adjusted net income	Not available	Not available
Normal tax net income <u>3/ 4/</u>	11,124.4	11,742.8
Surtax net income <u>4/</u>	11,235.0	11,828.3
Normal tax	2,525.7	2,688.0
Surtax	1,744.5	1,636.1
Declared value excess profits tax	100.0	100.0
<u>Corporation excess profits tax data --</u>		
Number of taxable returns	Not available	Not available
Excess profits net income	Not available	Not available
Specific exemption	Not available	Not available
Excess profits credit	Not available	Not available
Unused excess profits credit	Not available	Not available
Adjusted excess profits net income	9,236.5	11,056.0
Excess profits tax <u>5/</u>	7,815.1	9,500.4
Postwar refund of excess profits tax -- gross	790.6	965.0
<u>Corporation capital stock tax data --</u>		
Number of taxable returns	Not available	Not available
Declared value of capital stock	Not available	Not available
Capital stock tax	6/ 300.0	6/ 350.0

Treasury Department, Division of Research and Statistics.

July 20, 1945.

- 1/ Excluding dividends received from domestic corporations and both wholly and partially tax-exempt interest.
- 2/ Less dividends received by domestic corporations.
- 3/ Includes net capital gains net income subject to the alternative rate of 25 percent.
- 4/ Includes net income of mutual insurance companies other than life which are taxable under Section 207, Paragraph 2.
- 5/ After deduction of only that portion of the postwar credit taken currently through debt retirement.
- 6/ Fiscal years 1942 and 1944.

Estimated number of taxable individual income recipients,
components determining their taxable income, and their
tax liability incurred in the calendar year 1943 ^{1/}

(Dollar amounts in billions; number of taxable
income recipients in millions)

Regular net income tax --

Number of taxable income recipients ^{2/}	57.8
Net income	\$85.1
Personal exemption and dependent credit	\$57.8
Surtax net income	\$47.5
Earned income credit and partially tax-exempt interest	\$ 7.7
Normal tax net income	\$59.6
Surtax	✓ 8.8
Normal tax	\$ 2.4
Wholly tax-exempt interest	Not available

Victory tax --

Number of taxable income recipients ^{3/}	49.9
Victory tax net income	\$116.0
Gross Victory tax	✓ 4.2
Net Victory tax	\$ 2.6

Treasury Department,
Division of Research and Statistics.

July 19, 1943.

- 1/ Excluding nonrecurring liabilities under the Current Tax Payment Act of 1943 due in the transition to a pay-as-you-go basis.
- 2/ Number of individuals receiving net income in excess of exemption. The number of income tax units incurring net income tax liability, estimated at 33 millions, is less than the number of taxable income recipients because of the filing of joint returns including the income of more than one taxable income recipient, particularly in the smaller income classes.
- 3/ Number of individuals receiving Victory tax net income in excess of exemption. The number of income tax units incurring net Victory tax liability is estimated at 45 millions.

Estimated number of taxable individual income recipients, their net income for the purpose of the regular income tax and their Victory tax net income, and their tax liability incurred in the calendar year 1943

Distributed by net income classes

(Number of taxable income recipients in thousands;
dollar amounts in millions)

Regular income tax net income classes 1/	: Number of : : income : : recipients :		Regular net income tax liability 3/	: Number of : : income : : recipients :		Victory tax net income liability 4/	Net Victory tax liability
	: incurring : : regular net : : income tax : : liability :	Regular income tax net income 2/		: incurring : : net : : income : : liability :	Victory tax net income liability		
Under 1	6,370	\$ 5,137	\$ 248	9,454	\$ 8,826	\$ 93	
1 - 2	16,917	24,925	2,075	24,634	40,316	776	
2 - 3	7,741	18,322	1,298	8,998	24,112	541	
3 - 4	3,616	12,182	1,212	3,616	13,904	343	
4 - 5	1,605	6,930	859	1,605	7,907	205	
5 - 10	1,145	7,309	1,219	1,145	8,539	235	
10 - 100	437	8,652	3,086	437	10,356	329	
100 and over	8	1,674	1,252	8	2,028	88	
Total	37,840	\$ 85,132	\$ 11,249	49,898	\$115,987	\$ 2,610	

(thousand dollars)

July 20, 1943.

Treasury Department,
Division of Research and Statistics.

Note: Figures are rounded and will not necessarily add to totals.

The classification by net income brackets is in accordance with net income as determined by the Revenue Act of 1942 although the present law individual income tax liability of members of the armed forces is estimated after allowing for the \$1,500 exclusion from base pay provided for in the Current Tax Payment Act of 1943. Number of individuals receiving net income in excess of exemptions. The number of income tax units incurring net income tax liability, estimated at 33 millions, is less than the number of taxable income recipients because of the filing of joint returns including the income of more than one taxable income recipient, particularly in the smaller income classes.

Excluding non-recurring liabilities under the Current Tax Payment Act of 1943 due in the transition to a pay-as-you-go basis. Number of individuals receiving Victory tax net income in excess of exemption. The number of income tax units incurring net Victory tax liability is estimated at 45 millions.

MEMORANDUM FOR THE SECRETARY.

July 23, 1943.

Mail Report

The week's mail, still numerically heavy, brought little that was new or particularly interesting. There was an occasional bitter protest of hardship resulting from the withholding tax, and a number of reports of what the writers considered errors in deductions, with the requests that the Treasury set their employers right as to the proper sums to withhold from wages. As in the case of the Victory Tax, questions frequently arise as to whether such compensation as overtime pay, or a bonus earned prior to the effective date of the tax, but received afterwards, is subject to the withholding tax. There were a number of advocates of some form of sales tax, and no opponents.

This office handled approximately a hundred of the replies to the telegrams asking corporations about their preference in types of Treasury certificates. Roughly three quarters of these replies favored a one-year certificate, rather than a longer one; however, a few firms asked for both a one-year and a five-year issue. Thirty or forty slogans for the Third Bond Drive were submitted, most of these coming in during the early part of the week.

Bonds sent to the Secretary for redemption numbered only 45, but there was increased comment on unwarranted cashing of Bonds, especially in defense areas. Reports of failure to receive interest dropped back to normal, and complaints from personnel of the War Department fell from 72 last week to 52 this week. It is interesting that a great many letters report the writers and their associates are now getting current Bonds without any great delay, so that their complaint deals with the

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Memorandum for the Secretary.

July 23, 1943.

first months of the deductions, usually in 1942. A group of writers from the same locality in Florida have listed Bonds due to them and ask refunds on the entire group in order that they might buy new Bonds from local outlets.

Miscellaneous mail included plans for post-war purchasing; inquiry as to the disposition of N.Y.A. equipment; an offer to sell the Treasury broken lots of shoes; and a legal document stating that the Government is to be trustee of the writer's property, and to inherit it at his death.



General Comments

Robert G. Goree, San Diego, Calif. This Congressional District was for a long while solid Republican. However, since 1936 we have had a wonderful Representative, a New Deal Democrat, Ed V. Izac. He has been elected by a fine popular vote against good opponents until this last 1942 election, then he was elected by a small majority vote. The cause lies in Washington, with Professors and Theorists, mostly Republicans, who have sent into our District new faces from the "Four Corners" to hold positions in departments such as -- Federal Public Housing Authority, Office of Price Administration, with its various branches of Price Control, Rent Control, etc., War Housing Center, etc., etc. * * * The most distressing thing is that the Office of Collector of Customs here has been up for reappointment or replacement for the past two years. And, one of our outstanding Party followers, Thomas E. Moss, Past Chairman of the Democratic Central Committee, a fine and respected citizen, honest, energetic and clear thinking, and loyal as any Southern Gentleman, has the endorsement of our County Democratic Central Committee, our State Democratic Committee, and the National Democratic Committee by Mr. Walker, who was here recently and met and talked with Mr. Moss personally. Yet, no action has been taken in the Treasury Department to replace the old renegade "Sooner", Ex-State "something" from Montana, whom Senator McAdoo imposed upon this District when we still had a Republican Congressman in 1933-34. It has been brought to our attention that you want a "big man" for this place. Well, the one now holding, or rather, drawing the salary came here to San Diego broke - "busted", and when appointed was in debt to plenty of different persons, to one of whom he owed his "room rent" in an Auto Court for 26 months. He paid taxes of \$7.65 on an old junk automobile. Tell us where we can find another who is any less a representative citizen than this Carpet Bagger. * * * The Office of Collector of

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Customs needs a real Administration man like Mr. Moss in the place of this present incumbent who is against our Congressman, supported Burton K. Wheeler for President the last election, and who has never put one of our Party into a job in his Department. * * *

Christ Antonopoulous, Santa Barbara, Calif. I have bought many U. S. War Bonds during the last year, but when I buy a War Bond of the U. S., I am buying an investment of the best kind. I am a Greek working man, but an American by choice, and instead of buying extra Bonds this month, which will be paid back later with interest, I have a better idea. My appreciation of what America means to me can be exemplified much better by something which I give from the heart, so I respectfully ask that you accept the enclosed Money Order for the value of one War Bond to be applied to the building of the new mystery Aircraft Carrier, "Shangri-La", to "Bomb Tokyo". Please credit this small token of love and loyalty to one of Uncle Sam's foreign-born sons, too old to fight (I am over 60), to our Navy as suggested above. Praying that millions of Americans will make at least one gift to their "Uncle Sam" to win the war, I remain, believe me, Yours very truly, Christ Antonopoulous.

Copy of letter addressed by Wm. C. Landis, Edgewood, Pa., to Senator Harry F. Byrd. Thank you for sending me copies of Senate Documents Nos. 54 and 66, covering additional reports of your Committee on the National Youth Administration and Federal Personnel, respectively. I have taken the time to read these reports very carefully and have also been extremely interested in watching the progress of the matter through the daily press. * * * This is very gratifying to all of us who are still hopeful that the American way of life, and its Constitutional Form of Government may prevail against the present trend toward bureaucracy

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and national socialism. You and your Committee are performing a magnificent service to that end, and you may be assured that you have the full support of all straight-thinking individuals, and that more and more of them are throwing their own personal weight behind the things for which you stand. * * *

L. D. Read, Burbank, Calif. The majority of "We, the People" are for you, as we all know the tendency of the moment for increase, and some may not be too particular how they do it. We have no desire to gamble for the benefit of the money-changers. More power to you and our beloved President, and all of our sincere representatives in Washington.

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Favorable Comments on Bonds

Max Goldberg, Illinois Baking Corporation, Chicago, Ill. We suggest you issue one, two, three, four and five year certificates in addition to longer terms security so that small investors can have funds coming due from the Government each year for the next five years. Good luck in your undertaking. The country is proud of your success in financing our war needs. This telegram is sent prepaid, not collect.

A. E. Hindorff, Cashier, Jasper County Savings Bank, Newton, Iowa. As a country banker with forty-two years' experience, I wish to make a suggestion regarding the redemption of Series "E" Bonds. I am enclosing herewith three forms which we use in sending these in for collection through the Federal Reserve Bank of Chicago. * * * It takes about two weeks before we receive the checks for our customers. All of this causes a great deal of extra help, both at local banks and no doubt at the Federal Reserve Bank. It occurs to me that if an officer of the bank makes proper certification on the back of the Bond, with our seal, that a great deal of time and labor would be saved if we could cash these right over the counter and make a cash letter direct to the Federal Reserve Bank for immediate credit. This would certainly save a lot of expense all over this great country of ours.

Esther Werner, Rea Silver, Ida Robinson, Members, Evergreen Committee of Correspondence, Los Angeles, Calif. * * * We are unalterably opposed to having War Bonds on the Stock Exchange. Most people are buying War Bonds with their hard-earned savings, denying themselves many things in order to buy War Bonds, and feeling that they are doing their patriotic duty by so doing. To put War Bonds on the Stock Exchange would be against all American principles. We hope you will keep up your determined stand against such a move.

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Mrs. H. Kenneth Dickes, St. Louis, Mo. I know that the Government can't give the Army and Navy "E" to "Information Please", but couldn't some public recognition be made for the marvelous job done by "Information Please" in selling War Bonds? Perhaps something has been done, and I haven't seen about it - if so, excuse me. I greatly enjoy the program and did get such a thrill out of their Bond-selling tour, and just like to see people get credit where credit is due.

Mrs. Elwood B. Cole, Oakland, Calif. I have just heard an inspiring talk about War Bonds by John Nesbitt on the Westinghouse radio program. As I listened, the thought came to me that I had not heard the idea of "collecting War Bonds" as a hobby stressed. It seems to me a collection of War Stamps or War Bonds of as many denominations of each issue as one could afford would make a worthwhile gift to our children, and in years to come, after the Bonds are called and have become scarce, these collections would become increasingly valuable. If the idea caught on to any great extent, it would mean rather an appreciable gift to the Government, and to the war effort, since these collections would not be turned in for redemption. **

Unfavorable Comments on Bonds

J. E. Powell, (Licensed Broker), Columbus, Ohio. The writer, having the interest of our country at heart, has just come into possession of annoying propaganda which he believes should be handed to you. It seems that some one group has been setting forth arguments against buying War Bonds upon the assumption that if a Bond is issued in the name of John Jones or Mary Jones, being husband and wife, and they should meet death in a common casualty, the Bond would not inure to the estates of the deceased, but would be seized by the Government. The individual who told the writer said he had heard the same argument on half a dozen occasions, and neither he nor the writer can believe such conditions would exist. If you continue to hear reports such as this, the writer believes it might be advisable to do some advertising to combat it.

F. H. Randel, Kent, Ohio. At a businessmen's luncheon recently a statement or a repetition of a rumor was made that is a bit disturbing. A little discussion arose concerning the last Bond Drive. Every one still felt good about the success of the campaign. Some of the men who worked hard and earnestly in putting the campaign in this city beyond the assigned quota were quite proud, and rightfully so, of the outcome. * * * Next came the statement by one of the men -- the April drive was guided by a volunteer group of outstanding Cleveland men, gentlemen under the direction of M. J. Fleming of the Federal Reserve Bank. The September drive will be managed by paid agents and Mr. Fleming, along with the fine people who had worked with him, will have little or nothing to do with the activities. Our local committee felt hurt because the excellent job of selling in April must not have been appreciated. Now, Mr. Secretary, if the rumor is true, it is the writer's

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opinion, though you haven't asked for it, that the new plan may have serious adverse effects. Couldn't the Treasury Department make a sight more progress using volunteer local talent in the person of leading citizens to solicit the townspeople than by sending in strangers and letting the former campaigners sit on the sidelines?

Martin E. Robison, San Bernardino, Calif. I began paying \$20 per month for Bonds at S.B.A.A.D. July 1, 1942. Up to and including December, 1942, I have never received any of the Bonds, and I would like to have my Bonds or my money, as I have to buy a home in order to have a place to live while I work for the Depot. Any information will be appreciated. When I ask here, it is one evasion on another.

Mayor Jesse N. Owens, Jefferson City, Mo. (Telegram) Our people here are up in arms over your contemplated removal of the State War Savings Finance Committee to St. Louis. Coming after the removal of the WPA and NYA to Kansas City, and the OPA to St. Louis, this is the last straw. This office has a small force, but it means much to this community, and little to an overcrowded city like St. Louis. We have vacant rooms, apartments, and dwellings, and our people cannot understand such a move. Our community doubled its quota in the recent Bond Drive, and it is going to take a lot of stomach for our leading citizens to put on the coming drive and attempt to explain why we cannot retain these departments in our city. The situation is serious and an investigation by your office is in order. (Similar longer telegram from Walter C. Brown and Dwight Bedell, President and Secretary of the Jefferson City Chamber of Commerce.)

Mrs. Ada Adams, St. Joseph, Mo. While you are so busy encouraging workers to take 10% of their wages for War Bonds, why on earth don't you allow some of the Government workers to do the same? I run a boarding house

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for young women workers. Those from "Swifts", "Armours", and other big business houses, sign up to have 10% taken from their pay envelopes for Bonds, but the two girls from the O.P.A. Office, and one from the Federal Building have been trying for eight months to be ALLOWED to have the same amount deducted. They keep telling them that cards will be sent from Dallas but one of the girls has been working since last Oct. and the War will be over before Dallas gets around to it. * * * Don't bother to send me the form letter, "Thank you for your suggestion, and it will be referred to the proper authorities, etc., " -- I worked in Washington during the other War and know all about that. I'll know whether my suggestion did any good when the girls get a chance to buy Bonds regularly out of their pay checks!

Favorable Comments on Taxation

A. M. Rochlen, Director, Industrial & Public Relations, Douglas Aircraft Co., Inc., Santa Monica, Calif. You will be interested, I am sure, to see how we have undertaken to explain the operation of the new withholding tax to our employees. I am sending you a copy of our plant newspaper, "Douglas Airview News", in which we have devoted a double-page article to this subject. I hope we have succeeded in making a simple, clear and graphic explanation to our workers of this topic, which many of them had considered very complicated. This weekly newspaper, which we bring out in each of our six big plants, reaches a total of 143,000 employees. I hope that, as a result of this article, the gigantic task your Department has shouldered in administering this tax may be somewhat lightened through full and careful compliance by all Douglas personnel.

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Unfavorable Comments on Taxation

G. M. Galvin, President, Jerry Galvin, Inc., (Boiler Setters, Furnace Builders), New York City. We have just completed making the routine returns for Victory Tax Withheld, Social Security Tax, and Capital Stock Tax. On each of these returns it is necessary to have a Notary's signature. The writer believes it to be highly blasphemous to call on God to witness the truth of a routine tax return at such frequent intervals. Certainly there is nothing holy about these routine returns. * * * And that it is a nuisance was just demonstrated. As long as I signed the return I must in person seek the services of a Notary Public. I visited three offices where Notaries are working. None of them happened to be in. Now it is necessary that I stick around this office when I should be out on the job seeing that boilers that are being converted from oil-firing to coal-firing will have the job done properly. Do you think that you could possibly interest some one in obviating this stupid requirement. The State of New York has already dispensed with this sillynonsense, and it might possibly help us to have a little more respect for the intelligence of the officials of our National Government if they use their head to try to make things as easy as possible. * * *

Anonymous -- J.L.N., New York City. Nobody is more wholly in favor of deductions from pay envelopes as a means of collecting income taxes than I am. Until today when I received my envelope, less a deduction, my disposition was to cooperate with the Government cheerfully. * * * But now I am through. It may seem to be a little thing to you, but to me it amounts to a lot more than the mere figures involved. Instead of my employer using his option to calculate the 20% deduction exactly, he made use of your schedule for deductions which, as it applies to my salary, takes \$4.00 more per month (payments semi-monthly) than would be the case if calculated exactly against my pay, and this is because

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I received a few pennies in that pay in excess of the next lower line of deductions. That will be \$48 a year taken from me that I won't owe in taxes, and which on my small salary actually is a hardship. * * * I feel that Congress betrayed us by enactment of legislation that enabled chislers to get out of paying their 1942 income taxes, at least the 75% of it. All the smoke about current position was nothing but a screen for the big fellows to get their taxes cancelled. * * * As for the Treasury Department, it is most irritating that never does anything emanate from there on the subject of taxation that doesn't seem to be beating around the bush and holding a joker up the sleeve and consequently we reluctantly come to have doubts about the sincerity of our Government officials. * * * Another thing that seems so insincere to me is all the talk about the dread of inflation and that purchasing power must be drained off to stop it. Inflation could have been stopped long ago, and you may be sure that the majority of our citizens are not holding our President responsible for the failure to stop the rise in prices, nor the heads of most of the Government Departments. * * * Most people who have money to spend will continue to spend it without giving a thought to inflation, but if the Government really meant what it is saying about inflation, it could have acted before this and put on a Federal Sales Tax. The fellow who will spend in spite of all warning, regardless of whether he actually needs what he buys, should be taxed heavily. * * * Until I am convinced that Government officials are more sincere than they appear to be, I am not going to take any chance of letting the Treasury get hold of \$48 from me by overdrawing from my pay envelope. So I asked my employer to reduce my pay to the point that would put the salary on the proper line for deduction, and for him to just make a mental note of it and perhaps some day to make a lump sum payment to me as a present. I would not have done this had any information been given out by the Treasury as to prompt refund of the excess collections. All that I have seen about it in newspapers is that there would be a refund or a credit given. * * * A refund should be made not later than the December 15th

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quarter, and if that is not done, then I am going to protect myself as far as I possibly can. I will not accept a credit from the Government for repayment since after my experience today with your tax deduction schedule I have no faith that the tax mess won't go from bad to worse and end up in my never getting the money back.

Judge William Hawley Atwell, U. S. District Court, Dallas, Tex. For many months there has been deducted from my pay check as U. S. District Judge, a so-called tax. Beginning with August 1, that deduction is to be quadrupled so it now amounts to twenty percent. All of the Revenue Acts by which authority those deductions have been made, and which authorize and require that I pay an income tax upon my judicial salary, I conceive to be unconstitutional. This communication is, therefore, a protest against such deductions, and such collections. With expressions of respect, I am - Yours very earnestly, William Hawley Atwell.

Charles F. Batchelder, Jr., Boston, Mass. Will you please add my protest to the list of those whom I am sure resent the inconvenience and apparent uselessness of the requirement that the employers of this country must swear before a Notary or other official when they make out the withholding tax form V-1 when at the same time they make out form SS-1 which only requires the signatures of two witnesses.

J. C. Wratschko, Treasurer, New Britain Specialty Co., New Britain, Conn. It is unusual to write the Secretary of the Treasury about such a problem as ours, but we are destitute and it is the only way we have of letting you know what our situation is, and how it relates to our ability to pay our next installments of taxes. We are a small concern which successfully sold its products during the years 1941 and 1942. * * * In spite of the Small war Plants Act of 1942, which permits a tolerance of 15% to the small plants, larger companies have dropped their price to the Government to practically a cost

figure, which makes it impossible for the small fellow to compete. We paid our first two installments of the 1942 tax and, hoping we would be able to obtain orders in 1943, turned what little money we had left into stock. Our representative has been in Washington, and has visited various divisions of the Small War Plants Corps in the East but with no success. All agencies contacted have gone through the motions, but have been unable to produce results. We want to pay our taxes and the Government is anxious to get them. However, we absolutely will be unable to pay our third and fourth installments unless the Government is willing to take merchandise in lieu of taxes, or unless we obtain a Government order before the time the next installment comes due. * * *

Harry Scott Holland, Beloit, Wis. I see by the Chicago Sun that the "tax experts???" in the Treasury are considering a tax on excess income, that is of the individual due to the War. What next will you screw-ball New Deal economic saboteurs think of next, as the Sun says, and of course even you know it is a New Deal propaganda sheet. It is a class or cost tax and is designed to keep all wage-earners in their place, and even the Sun says this tax should be defeated at once.

Senator Sheridan Downey, (California). Please permit me to send you herewith self-explanatory correspondence I have received from Mr. George E. Hopper of Los Angeles, Calif., with regard to his claim for abatement of \$452.35, an alleged overassessment of tax. Any assistance you can properly extend Mr. Hopper, and your advice at your earliest convenience, would be appreciated, believe me. (The following is quoted from the letter written by Mr. Hopper to the Senator.) As a last means to get justice, I am in desperation appealing to you as my Senator for help. I am enclosing my latest letter from the Treasury Department, in answer to an appeal I made in the form of a claim for abatement on a tax

that the local Social Security Department of the Treasury placed over my head as a money grabbing scheme. I have been black-balled by some one at this end ever since I tried to prove to them I was not a subject for their Title IX. As proof of my claim for abatement, I sent to the Commissioner at Washington, through the Los Angeles Office, and I hope it really was sent to Washington, copies of the attached forms 843, together with a week-by-week copy of my payroll record as to the number of men I had working for me during that week; also four notarized statements by men who had worked for me most of the time. * * * Also letters from subcontractors who worked for me, and owners for whom I worked during those two years, and their statements were all similar -- "that George Hopper did not have over seven men working for him during 1938 and 1939". You can read for yourself the third paragraph of their answer. It looks like no matter what I would do, the answer would be the same, so far as the Commissioner is concerned. I have lost my business, and I am so near bankruptcy that I am in fear of losing my home. I am in debt to the point that I couldn't, if I wanted to, pay these claims that are very unjust. The Treasury Department has a blanket lien against me that keeps me from selling some vacant lots that I bought for building purposes, and with the money, pay off my creditors. I have a good ~~wife~~ and a boy 14 and a baby girl 2. They must eat and live like respectable people. My car and my truck were mortgaged to pay off Title VIII claims that I paid through fear, but I am down now and fear doesn't mean anything any more. * * * Hoping that I have given you enough information to see clearly my case, and hoping to God that you will help me out of this mess.

JUL 23 1943

My dear Justice Byrnes:

I have your letter of July 22, 1943 and the memorandum from Payne Coy which you enclosed.

For many decades the Department of State and the Treasury Department have successfully coordinated their activities. This coordination has been based upon a common understanding, good faith, and a mutual respect for not only the responsibilities, but also the dignity, of the other Department. I believe that the traditional relationships between the two Departments must be maintained, and that it would be an error of serious and far-reaching consequences to attempt to freeze these relationships by means of a set of formal rules. Such rules can only result in misunderstandings, hard feelings and a general straining of relationships.

The foreign activities of the Treasury Department range from the most inconsequential matters to matters of great significance. It is impossible to define in any satisfactory way the procedures for handling such relationships other than to follow the traditional pattern which has worked well for so many years. To attempt to virtually codify the Treasury's procedure of contact with the State Department is not only completely uncalled for in the light of experience but would impede the operations of both Departments and the attainment of the common objectives which they seek to achieve.

Sent by S.S.Agt
4:15 pm 7/23/43

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable James P. Byrnes,
Director,
War Mobilization Board,
The White House.

Orig. file ret'd to White's Office
Photo of incoming ltr
from Byrnes, Memo to
Byrnes from Wayne Coy and
ltr. to Byrnes from Cordell
Hull; also copy of reply to
Byrnes in Diary.

NDW:rl 7/23/43

JWB: APL:

OFFICE OF WAR MOBILIZATION

WASHINGTON, D.C.

July 22, 1943

James F. Byrnes
Director

Dear Sir:

I am enclosing to you a memorandum of the meeting held in my office on July 19th.

Sincerely yours,

James F. Byrnes
JAMES F. BYRNES.

Hon. Henry A. Morgenthau,
Secretary of the Treasury,
Washington, D. C.



EXECUTIVE OFFICE OF THE PRESIDENT
Bureau of the Budget
Washington, D.C.

July 20, 1943

MEMORANDUM TO JUSTICE BYRNES

I am giving you herewith a summary of the meeting held Monday morning, July 19th, at which you discussed the letter of July 16th, 1943 addressed to you by the Secretary of State. All references in my notes are to that letter unless otherwise designated.

With respect to paragraph 1 of the letter, you stated your conclusion that you would advise the Secretary of State to proceed with the coordination of foreign economic activities as he had been doing, and made particular reference to the continuation of the coordination of such activities in liberated areas under the President's letter of June 3rd to the Secretary of State. (I assume that you will put such a directive in writing to the Secretary of State).

Paragraphs 2 and 3 of the letter did not seem to raise objection though I think I should point out that paragraph 2 was not discussed at any time. Paragraph 3 was discussed and there seemed to be complete agreement.

Paragraph 4 was discussed at some length. I do not believe there was any objection stated to the first sentence of this paragraph. There was rather insistent objection to the last sentence of the paragraph. The State Department, as I understand it, is to submit departmental proposals as to the manner in which they will handle the representatives abroad of the various agencies.

Paragraph 5 was discussed at some length and there seemed to be agreement on the general principles upon which communications would be handled though I am afraid that putting these principles in writing may be somewhat difficult. The following paragraph is my best effort to do it.

5. All cable communications between officials engaged in foreign economic work in foreign countries and Washington shall be conducted exclusively through State Department channels of communication. All mail communications dealing with policy questions, in whole or in part, shall be conducted exclusively through State Department channels of communication. Copies of all communications other than those in the two preceding categories shall be furnished to the Department of State.

It is obvious that the arrangements discussed in the preceding paragraph create a rather difficult situation between the agencies and the Department of State. Tolerance on both sides is called for. It will be necessary for the various agencies to work out, on the basis of experience, matters handled by mail communication which must be cleared through the State Department. It is urged that good faith efforts be made to arrive at such an understanding as promptly as possible.

Paragraph 6 was discussed and revised. I believe the following constitutes the agreed revision:

6. That in each significant center of operation the Department of State may appoint, within its discretion, a Minister or Counsellor on Economic Affairs (under the Chief of Diplomatic Mission or the Military Commander, as the case may be), with the authority to guide and unify all economic work of the American Government within the area of his authority. With respect to liberated areas the Secretary of State shall appoint, after consultation with the members of the Policy Committee (as established by the President's letter of June 3rd to the Secretary of State), an Area Director who shall have the powers and duties as provided for in the President's letter of June 3rd aforementioned.

The subject matter of the penultimate paragraph was not discussed.

/s/ Wayne Coy

Wayne Coy.

DEPARTMENT OF STATE

Washington

July 16, 1943

My dear Justice Byrne:

In order to assure that the conduct of foreign economic affairs is "in conformity with the foreign policy of the United States as defined by the Secretary of State" (President's Executive Order of July 15,), it is requested that the Director of War Mobilization give written instructions to all agencies concerned in this work to the following effect:

1. That in providing for the unification of the "activities of the Federal Government relating to foreign supply, foreign procurement and other foreign economic affairs in conformity with the foreign policy of the United States as defined by the Secretary of State" (Paragraph 4 of Executive Order of July 15, 1943), the office of War Mobilization has determined to utilize for this purpose the facilities of the Department of State, including its Office of Foreign Economic Coordination.

2. Each Government agency engaged in foreign economic work shall have the duty of ascertaining that its plans and activities are in conformity with the foreign policy of the United States as determined by the State Department. For this purpose the Department of State, through customary channels, should be advised of all plans and activities in advance and its agreement secured.

In the event of any conflict of views between the State Department and any other agency on the requirements of our foreign policy, the views of the Department shall be accepted.

3. All negotiations with foreign governments which may be conducted at home or abroad shall be carried out through the Department of State or its establishments or under their supervision or independently by their consent.

4. The State Department shall be consulted in regard to appointments of officials who engage abroad in foreign economic activity and its consent obtained before appointment. Such officials shall assume such status as members of a unified United States mission in the area concerned, or as a special mission as the Secretary of State may determine.

5. Communications between officials engaged in foreign economic work in foreign countries and Washington shall be conducted through State Department channels of communication, and in accordance with the foreign policy of the United States as determined by the Secretary of State.

6. That in each significant center of operation the Department of State may appoint, within its discretion, a Director of Economic Operations (under the chief of diplomatic mission or the military commander, as the case may be) with authority to guide and unify all economic work of the American Government within the area of his authority.

be followed out, and the following be named as directors, the Secretaries of State, War, Navy, and Interior. The Department of State,

It is also desired to request the Director of War Mobilization (a) that he permit State Department representatives on the Board of Directors of the United States Commercial Corporation to remain undisturbed; (b) that in drawing the by-laws of the Petroleum Reserve Corporation the Director named by the President to the Secretary of State, of course, is entirely agreeable if the office of the Director of War Mobilization wishes to join the Board or to make some appointment thereto. It is needless to emphasize that the operation of this organization will in a most direct and decisive way enter into the course of our foreign relations and the Department of State anticipates very continuous and active participation in the operation of that organization.

In order to avoid current confusion it would be appreciated if the preceding instruction could be issued to the agencies concerned at the earliest possible moment.

Sincerely yours,

(signed) Cordell Hall

JUL 23 1945

Dear Mr. Secretary:

I am enclosing for your attention and consideration a copy of my letter of this date to the Secretary of State on the subject of an appropriate policy with respect to the narcotics problem in occupied territories.

Sincerely yours,

(Signed) H. Mergenthal, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy

Enclosure

By Messenger Manus 4:25

Copy of ltr. and
enclosure in Diary.

Orig. file ret'd to Anslinger
Office by Messenger *Handwritten initials*

JUL 23 1943

Dear Mr. Secretary:

I am enclosing for your attention and consideration a copy of my letter of this date to the Secretary of State on the subject of an appropriate policy with respect to the narcotics problem in occupied territories.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War

Enclosure

By Messenger Manus 4:25

Copy of ltr. and
enclosure in Diary.

Orig. File ret'd to Anslinger's
office by Messenger

JUL 23 1943

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

Reference is made to your letter dated June 26, 1943, (File FE 890.114 Narcotics/4), enclosing copies of letters addressed to the Secretary of War and to the Secretary of the Navy outlining the general narcotic policy adopted by this Government many years ago in connection with restricting the use of narcotic drugs to medical and scientific requirements.

The Treasury Department is extremely gratified to note that the Department of State has taken the initiative in formulating a policy to bring about a solution to the perplexing problem of smoking opium monopolies in the Far East immediately upon the occupation by our forces of part or the whole of any one of the territories now occupied by Japanese forces.

As your Department asks for an expression of our attitude on the proposed policy of seizing upon occupation all drugs intended for other than medical and scientific purposes which may be discovered and of closing any existing opium shops or dens, I take pleasure in pointing out that the time is propitious to abolish smoking opium monopolies when the United Nations recapture territories where monopolies were formerly in existence.

The continuance of smoking opium monopolies did not solve the problem of fulfilling the obligations of The Hague Convention. While this Convention called for a gradual and effective abolition of these monopolies, they were continued without any success toward solving the opium smoking problem. It is not improper, therefore, to ask why a new system should not be undertaken when the United Nations recapture these territories.

By Memorandum Manus 4:25
PHOTO. File in Diary.
Orig. File ret'd to Anslinger's Office

- 2 -

The war in the Pacific has wiped out the European administration of smoking opium monopolies in all territories in the Far East formerly owned by Great Britain and The Netherlands. All of the old administration is gone. While information as to how the Japanese are operating these monopolies is meager, there is no doubt that they have taken over the monopoly system in its entirety and have probably encouraged consumption.

The advantage of a new system would be to dissociate completely from past Japanese action the policy of United Nations occupation forces. This would have the effect of impressing on the understanding of the populace the difference between the new United Nations policy and the Japanese policy. A fundamental change in the smoking opium monopoly system would be a simple and dramatic way of bringing this difference to the attention of the whole population. If the monopolies are abolished upon reoccupation, such action could always be pointed out as showing the good faith of the United Nations.

In a letter dated July 8, 1943, to you from Secretary of the Navy Knox, commenting on the desirability of adopting a common policy in this regard, he stated that the abolition of these monopolies would increase the cost of our military government, particularly because of the loss of revenue due to not selling opium. I believe that this expense would be a fine investment because of the permanent social, economic, and political advantages which would thus accrue to the United Nations and to the rest of the world.

First and foremost, consideration should be given to the danger of our troops becoming addicted to smoking opium in these territories. Merely declaring these shops out of bounds by military police would not solve this problem. It has been our experience that where opium or other narcotic drugs are readily available addiction becomes prevalent. Addiction among our troops would precipitate a tremendous problem for the Treasury Department after the war in its enforcement of the narcotic laws. Addiction might spread by leaps and bounds among the

- 3 -

military personnel. Upon returning to the United States they would become the prey of the drug peddler. The illicit market thus created would cause an up-surge of illicit manufacturing in Europe and the Far East. The United States would again become the victim of this traffic. Upon their return the cost of hospitalizing soldiers to cure them of drug addiction would be considerable. The Treasury Department would probably have to ask the Congress to double its appropriation for enforcing the narcotic laws in order to meet the problem. This consideration is of paramount importance and of domestic concern, aside from the larger aspects of the international narcotic problem.

In the fourth paragraph of his letter, Secretary Knox states that the practice of opium smoking and eating is more widespread among the Chinese element of the population than among other elements, and he believes it would be of assistance in any program of suppression if the Chinese Government would enunciate a clear and unequivocal policy of total suppression in any area to be occupied or reoccupied by its forces alone or jointly with those of the United States. I am pleased to communicate to the Department the text of a personal telegram dated July 6, 1943, sent to the Commissioner of Narcotics by Dr. Victor Hoo, Vice Minister for Foreign Affairs, at Chungking:

"I have been taking up the matter referred to in your letter of April 21 ever since I arrived in Chungking. I am glad to inform you that all formalities have now been fulfilled and the decision has been taken by our highest authorities to instruct our expeditionary forces to suppress opium monopolies and opium smoking immediately after occupying the territory concerned. Can you send me the text of your instructions to American troops so as to enable us to coordinate our actions with a view to practical and detailed measures of prohibition. We intend to destroy stocks."

- 4 -

It is assumed that this policy has been decided by Generalissimo Chiang Kai-shek and that your Department will receive formal notification in due course.

It would be a splendid contribution to this effort if we could enunciate our policy to the Chinese and send them a copy of military orders to suppress monopolies. The advantage of this action at present would greatly stimulate Chinese morale. During this particular period when the British and American Governments are unable to send to China all the material that is asked for and needed, a statement of new policy by the United States, and possibly later by the British and Dutch, on opium monopolies supporting and paralleling the policy of the Chinese Government would be a great gift in the field of morale in this interim when transportation has been reduced to a trickle over the Himalayas. Such a statement on policy of opium monopolies would have a much wider and more heartening effect all through China than would the abrogation of extraterritoriality, as people all over China, occupied and unoccupied, know more about the opium problem than they do of extraterritoriality. They will all understand what this means. The United Nations would be aided by this dissociation with Japanese opium policy. It would also accomplish the removal of an old source of antagonism between the Chinese and the British. It would be a pillar of support to the policy of the Chungking Government.

The abolition of smoking opium monopolies is particularly necessary to achieve limitation of opium production to the medical needs of the world after the war. It is almost impossible to arrive at a global total of legitimate opium needs as long as these monopolies exist because they show wide variation in consumption year after year.

Sincerely yours,

(Signed) M. Morgenthau, Jr.

Secretary of the Treasury

Honorable Cordell Hull
Secretary of State
Washington, D.C.

CC: Secretary of War
Secretary of the Navy

ADDRESS OF THE DEPARTMENT OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

A reply refer to
S 890.114 Narcotics/4

June 26. 1943

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

The Department has studied the minutes of the meetings which have recently been held under the sponsorship of the Foreign Policy Association for the discussion of the question of the suppression of the abusive use of narcotics in areas in the Far East now occupied by Japanese forces when such areas are reoccupied by the armed forces of the United Nations. Copies of those minutes are enclosed herewith for convenience of reference.

As a result of this study, the Department has addressed to the Secretary of War and to the Secretary of the Navy identical letters, copies of which are also enclosed herewith. In these letters the Department has outlined the general policy which was adopted by our Government many years ago as regards the restriction of the use of narcotic drugs to medical and scientific requirements and has requested the views of the War and Navy Departments concerning the advisability, immediately upon the occupation by our forces of part or the whole of any one of the territories in the Far East now occupied by Japanese forces, of seizing all drugs intended for other than medical and scientific purposes which may be discovered and of closing any existing opium shops or dens. The proposed action is substantially that advocated by the Commissioner of Narcotics in the meetings referred

to

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.



to above. While the Department is aware that the proposed action is in consonance with the narcotics policies formulated and supported by the Treasury Department, it would be pleased to receive from the Treasury Department, for the record, an expression of its attitude on this subject.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "C. C. Shull". The signature is written in dark ink and is positioned below the typed name "Sincerely yours,".

Enclosures:

1. Copies of letters to the War and Navy Departments.
2. Minutes of meetings of December 4, 1942, January 13, 1943 and March 17, 1943.

Serial 03811-x
(30) 15-2
A14-7

CONFIDENTIAL

CONFIDENTIAL

July 8, 1943

My dear Mr. Secretary:

In reference to your letter PB 890.114 Narcotics/4 of 26 June 1943, the Navy Department desires to assist in formulating a common policy on the suppression of the abusive use of narcotics in such areas now under Japanese control as our forces may later occupy.

Regardless of any other policies that may be developed it is the policy of this Department, in accord with established practice under U. S. Navy Regulations, 1920, Article 118, paragraph 3, when forces under its jurisdiction occupy an area in which the use of opium or other narcotics is legal, to declare all opium dens and narcotic shops or dispensaries out of bounds to our personnel and to enforce the order by shore patrol. The Department also through its responsible officers proclaims the sale or gift of narcotics to its personnel illegal and punishes violators in its military courts.

It is, as you know, obligatory on the military government of occupied territory under the Hague Conventions of 1907 to respect, unless absolutely prevented, the laws in force in the country thus occupied. If the sale of narcotics is legal in an area occupied by forces under jurisdiction of the Navy Department, the suppression of this drug traffic may be accomplished either on the basis of military necessity as protection for our own personnel or, in the event that the territory is subject to an allied government or to a recognized government in exile, by agreement with that government to suspend the laws permitting such traffic if common policy so dictates. The United Kingdom has expressed a desire to control through the Combined Chiefs of Staff occupational policies in their former territories regardless of which Allied force may occupy them. Hence a common policy based on agreements with the United Kingdom, the Netherlands and China is clearly desirable. It would secure continuity and avoid the appearance of the United States Government or its naval commanders acting arbitrarily to suppress a hitherto legal traffic.

Available information suggests that in the areas named in the third paragraph of your letter, the practice of opium smoking and eating is more widespread among the Chinese element of the population than among other elements. It would

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... assistance in any program of suppression if the Chinese Government would enunciate a clear and unequivocal policy of total suppression in any area to be occupied or reoccupied by its forces alone or jointly with those of the United States.

While this Department approves the formulation of a common policy to suppress the abusive use of narcotics in areas it may occupy, it is aware that enforcement of such a policy will decrease the revenues of the local government and increase the costs of our military government. It will demand considerable increase in naval personnel assigned to military government and civil affairs. Intelligence and patrol officers and enlisted men will be needed, in some areas in large numbers, to suppress smuggling and illicit trade in drugs and to prevent crimes attempted to obtain narcotics. Officers must be added to staff the commissions and the provost courts necessary to handle drug cases. Associated with these must be additional medical officers and hospital corpsmen with training in the control and treatment of addicts.

The course suggested in the fourth paragraph of your letter is clearly desirable in the view of this Department. It may be practicable within the limitations suggested by the foregoing.

If and when a common policy on this subject is adopted directives will be issued by this Department to the responsible officers in the Pacific and Far East.

Since you have sent letters on this subject to the Secretary of War and the Secretary of the Treasury, I am taking the liberty of forwarding each of them a copy of this reply.

Sincerely yours,

Frank Knox

The Honorable
Cordell Hull,
Secretary of State.

Copies to:

The Secretary of War.
The Secretary of the Treasury.
Bureau of Medicine & Surgery.
Judge Advocate General.
Bureau of Naval Personnel.
Commandant Marine Corps.
Commandant Coast Guard.

CONFIDENTIAL

reply refer to
890.114 Narcotics/4

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

From the time the Government of the United States took the initiative in bringing about the first international conference on the subject of narcotic drugs, which was held in Shanghai in 1909, and proposed the convening of the international conference which resulted in the opium convention signed at The Hague on January 23, 1912, it has been the consistent policy of our Government to cooperate with other nations in the control of the legal trade in these dangerous drugs and in international efforts to suppress their abuse. At those and subsequent conferences representatives of the Government of the United States have clearly stated that the policy of the United States Government is to limit the production and manufacture of narcotic drugs strictly to medicinal and scientific requirements and to consider use for any other purpose as abuse. This policy is incorporated in the laws of the United States, which prohibit the use of prepared opium. The same policy has been pursued wherever the jurisdiction of the United States Government has extended. For example, shortly after our assumption of control over the Philippine Islands, Congress enacted legislation prohibiting the importation of opium in the Philippines except for medicinal purposes.

The Government of the United States has on every appropriate occasion endeavored very earnestly to induce other governments to accept the doctrine that the use of opium should be restricted to medical and scientific purposes. A number of governments have signified their acceptance of this principle, but unfortunately some countries have not found it possible, owing to special circumstances, to eliminate

completely

The Honorable
Henry L. Stimson,
Secretary of War.

completely the use of opium for smoking and eating, particularly in their territories and possessions in the Far East.

The Department is desirous at this time of formulating a common policy to be adopted by the interested governments having as an objective the suppression of the abusive use of narcotic drugs in areas in the Far East now occupied by Japanese forces when such areas are reoccupied by the armed forces of the United Nations. These areas are the Philippine Islands, parts of China including Manchuria, Hong Kong, French Indochina, Kwangchow-wan, Thailand, Burma, the Straits Settlements, the Federated Malay States, Johore, Perlis, Kedah, Kelantan, Trengganu, Brunei, Sarawak, British North Borneo, the Netherlands Indies, New Guinea, and other territories in the Southwest Pacific.

It is anticipated that in all of these territories there will be found organizations sponsored by the Japanese military forces for the sale of narcotic drugs for other than medical purposes. Owing to the presence of opium, opium shops and opium smokers in these areas, in the opinion of the United States Commissioner of Narcotics, there would be danger of infection of susceptible individuals because it has been well established that most persons who begin to take drugs do so because of the accessibility of drugs and because of close association with persons who indulge in them. From the standpoint of the health and discipline of the men of the armed forces of the United States, it is believed that it will be advisable, immediately upon the occupation of part or the whole of any one of the above-mentioned territories by our forces, to seize all drugs intended for other than medicinal and scientific purposes which may be discovered and to close any existing opium shops or dens. Such drugs include opium prepared for smoking or eating and heroin, the use of which to satisfy addiction is injurious, according to the majority of experts. Wherever our forces are in complete control, it is assumed that they will be guided by our long established narcotics policies, but where they are collaborating with other members of the United Nations, our Government will take steps to obtain the concurrence on the part of those members in our proposed action.

The

The Department will be pleased to receive at an early date any comments or views which the War Department may wish to express concerning the desirability, advisability and practicability of pursuing the course suggested in the preceding paragraph. If any orders have been issued by the War Department to its Commanding Officers in the Far East on this subject, the Department will be pleased to be informed of their purport.

Similar letters are being addressed to the Secretary of the Navy and the Secretary of the Treasury.

For the strictly confidential information of the War Department, there are enclosed herewith the minutes of meetings which have recently been held under the sponsorship of the Foreign Policy Association on this subject. The attention of the War Department is particularly drawn to the last paragraph on page 9 and the first four paragraphs on page 10 of the minutes of the meeting held on January 13, 1943.

Sincerely yours,

Cardell Hull

Enclosures:

Minutes of meetings of December 4, 1942, January 13, 1943 and March 17, 1943.

In reply refer to
FE 890.114 Narcotics/4

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Frank Knox,
Secretary of the Navy.

Unfortunately some countries have not found it possible, owing to special circumstances, to eliminate completely the use of opium for smoking and eating, particularly in their territories and possessions in the Far East.

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Similar letters are being addressed to the Secretary of War and the Secretary of the Treasury.

For the strictly confidential information of the Navy Department, there are enclosed herewith the minutes of meetings which have recently been held under the sponsorship of the Foreign Policy Association on this subject. The attention of the Navy Department is particularly drawn to the last paragraph on page 9 and the first four paragraphs on page 10 of the minutes of the meeting held on January 13, 1943.

Sincerely yours,

Cordell Hull

Enclosures:

Minutes of meetings of December 4, 1942, January 13, 1943 and March 17, 1943.

MEETING IN THE OFFICE OF THE COMMISSIONER OF NARCOTICS

December 4, 1942, 9:00 a.m.

PRESENT: Mr. Harry J. Anslinger, Commissioner of
Narcotics,
Mrs. Helen Howell Moorhead, Director,
Foreign Policy Association,
Professor Joseph P. Chamberlain, Director,
Foreign Policy Association,
Mr. Herbert L. May, Director, Foreign
Policy Association,
Dr. Victor Mee, Chinese Vice Minister of
Foreign Affairs,
Dr. J. Heng Lieu, formerly Chinese Minister
of Public Health,
Mr. George A. Morlock, Department of State.

Mrs. Moorhead explained that the Foreign Policy Association for many years had maintained a narcotics research unit, of which Professor Chamberlain, Mr. May and herself were members, and that at the present time this group was interested in formulating a policy which the United States Government and other governments might adopt as regards the suppression of opium smoking and the drug traffic in areas which might be recaptured by the military or naval forces of the United Nations in this conflict. She said that the discussion contemplated was to be entirely informal and unofficial. She hoped, however, that as a result of the discussions at this and future meetings it might be possible for the Opium Research Committee of the Foreign Policy Association to make a report of some value to the authorities dealing with the question.

It was agreed that the discussion should concern itself with the situation in Burma primarily because there is strong probability that an allied drive on Burma may take place in the near future.

Dr. Lieu suggested that when Burma is recaptured by the allied forces the immediate prohibition of smoking opium be enforced and that all monopoly supplies be confiscated and destroyed.

Mrs.

Mrs. Moorhead said that opium supplies might be of great value a year or two hence in the event that the United States is obliged to supply other countries, including the United Kingdom should the drug supplies of the United Kingdom be destroyed by bombing, and that she would recommend that such stocks above one ton as might be confiscated in Burma be put in the hands of an international body for safekeeping and preservation.

Mr. Anslinger said that monopoly supplies on hand in all Far Eastern territories amounted to about 250 tons, that if large quantities were found in warehouses they might be preserved but that small lots should be destroyed.

Professor Chamberlain thought that it might be difficult to transport large quantities of opium out of the reoccupied areas.

Dr. Lieu stated that a distinction should be made between opium stocks for smoking purposes and stocks for medical needs, the latter to be taken in charge by the military medical authorities.

Mr. May felt that whether opium stocks in Burma should be preserved or destroyed depended upon whether the trade routes between the United Nations and Iran or Turkey remained open.

Mr. Anslinger stated that the United States has a stock of opium sufficient for four years and that the United States could produce large quantities of morphine from poppy straw on short notice, probably within a year.

Mrs. Moorhead, in view of these statements, said that she would withdraw her suggestion that lots of opium above one ton be preserved.

It was suggested that the monopoly countries might be compensated for opium destroyed.

Dr. Hoo said that the financial and legal questions involved were too small to be worth considering.

Professor Chamberlain inquired whether the Chinese Government would follow the policy outlined above.

Dr.

Dr. Hoo replied that he saw no reason why the Chinese Government should not do so as it is carrying out such a policy in the areas in China which it reoccupies. If the Government of the United States adopted that policy, China would agree.

Mr. May wondered what should be done in case heroin were found.

Mr. Anselinger said that before the war the United States Government destroyed heroin but is now converting heroin into codeine as a war measure.

Dr. Hoo said that the heroin found might be from the stores of the Japanese army, in which case it could be put in charge of the regular authorities, but of course other heroin would be regarded as illicit.

Professor Chamberlain thought that the Department of State could give instructions to the military or naval authorities along these lines.

Dr. Lieu said that heroin is not used in medicine in China.

Mr. Morlock said that some question would arise in regard to the treatment of addicts on humanitarian grounds.

Mr. Anselinger said that in the United States hundreds of addicts had been taken suddenly off drugs without a fatality.

Dr. Lieu said that in China 97 percent of the addicts had given up their habit without deleterious effects.

Mrs. Moorhead said that the British would claim sovereignty over Burma and regard the drug question as a domestic one; that they would argue that if the Burmese were suddenly deprived of their drugs, riots would occur; and that they would contend that smuggled opium from Indo-China and China would immediately take the place of monopoly opium.

Dr. Hoo said that there would be no smuggling from China.

Mr.

Mr. May ventured the opinion that there would be no riots if public opinion supported the suppression of smoking opium.

Dr. Hoo said that there was now no legal cultivation of the opium poppy in free China and that the quantity of opium produced in Western Yunnan was inconsiderable.

Mr. Morlock said that information in the possession of the Department of State indicated that there was some cultivation of the opium poppy in Western Yunnan and that it appeared to be inconsiderable.

Dr. Hoo added that the borders between Burma and China are indefinite and that if the Chinese Government enforced its anti-opium laws too strictly, the border markers would be moved into Chinese territory and China would thus lose jurisdiction over that area. He said that the borders are being patrolled and that there is no movement of opium from Yunnan into Burma.

Mr. Anslinger pointed out that the monopolies had never succeeded in keeping the smuggler out.

Mrs. Moorhead then raised the question of how to get British agreement on the proposition to suppress smoking opium in reoccupied territories.

Professor Chamberlain said that the British Government would have to issue instructions to their military authorities. He added that there was also a revenue question involved.

Mr. May thought that the British might yield if pressure were brought to bear upon them from the United States, China, Australia and New Zealand.

Dr. Hoo said that Great Britain would undoubtedly consider the question a domestic matter.

Professor Chamberlain said that perhaps the pressure could be brought through the Pacific Council.

Dr. Hoo asked whether the suppression of opium could be considered to be a military question.

Mr.

Mr. Morlock said that the British held that opium was necessary to preserve the health of the workers in swampy areas.

Dr. Hoo said that most of the addicts in Burma were Burmese and not Chinese.

Mrs. Moorhead referred to the situation in Java, where the addicts were mostly Chinese, and inquired whether the laws of the Chinese Government would apply.

Dr. Hoo said that the Chinese Government had no law covering the situation but had urged Chinese abroad to report to the Chinese consuls and to give up their opium-smoking habit.

Professor Chamberlain said that the United States Government would probably have to furnish the administrative officials for Java in the event Java is reconquered because probably none could come from the Netherlands.

Dr. Hoo said that he regarded the suppression of opium smoking as a military necessity for the safety and welfare of troops. As regards the Pacific Council, he stated that that body does not pass resolutions having the force of law but that all questions have to be referred to the individual governments. The Council merely discusses questions.

Mrs. Moorhead then asked for suggestions concerning the procedure to be followed in approaching Great Britain.

Dr. Hoo said that we must contact the British and Dutch Governments.

Mrs. Moorhead inquired whether a British representative might not be brought into the next meeting or representatives of Canada, New Zealand and Australia.

Dr. Hoo commented that Mr. Renborg had indicated that at the recent meetings in London the British and Dutch representatives took a favorable attitude toward the question of suppression.

Mr. May explained that Mr. Delgorge had indicated that if total world prohibition could be effected, he would be in favor of suppression.

Dr.

Dr. Hoo remarked that he felt confident that during the war there would be less smuggling than heretofore. He said that he thought Great Britain could be approached by formal or informal representations of the interested governments or by a group in Great Britain interested in the question.

Mrs. Moorhead suggested that possibly joint representations could be made to the British Foreign Office by China, New Zealand, Australia, Canada and the United States.

Dr. Hoo said that perhaps the Pacific Council was not the right organization in which to take up the question and that he was inclined to agree that the question should be raised with the British Foreign Office and that either China or the United States could do so.

Professor Chamberlain said that perhaps the Commissioners of the Dominions could take the matter up with the British Foreign Office.

Dr. Hoo commented that the British might resent such action if prior agreement had been attained by China and the United States with Australia, New Zealand and Canada.

Mrs. Moorhead said that she still thought that informal discussions could be had with the representatives of the Dominions and that an agreement could probably be reached among these representatives. The American State Department could then, if it saw fit, make representations to Great Britain and the Netherlands.

Mr. May raised the question whether the question could be taken up at a meeting of the Opium Advisory Committee as a starting point.

It was decided not to risk an adverse vote at such a meeting. It was also suggested that a resolution of the Opium Advisory Committee would carry little weight at this time.

With regard to asking a British representative to attend a future meeting, Mr. May said he was afraid that a suitable British representative could not be found in Washington.

Mrs.

Mrs. Moorhead said that the British Ambassador was familiar with the opium problem.

Mr. May said that he had learned on his recent visit to London that some British familiar with the subject felt that if Generalissimo Chiang Kai-shek requests that opium be suppressed throughout the Far East, the British would acquiesce.

Dr. Lieu said that the initiative in this matter might very well come from the Chinese and that the matter could be put before the Generalissimo. The Generalissimo could then inform the Government of the United States of his policy.

Dr. Hoo said he would speak to other Chinese officials upon his return to China, to which country he was proceeding on Monday, December 7, and that he would inform Mrs. Moorhead what could be done.

Professor Chamberlain said it would be the duty of the occupying troops to establish regulations in a reoccupied territory.

Mr. Anselinger said that the question arose in Africa and the military authority had inquired whether there would be danger to the troops from the legalization in Tunisia of takrouri and that he had replied that there would be such danger and a consequent possible breakdown of discipline. He added that he assumed that the commanding officers will ask that the takrouri shops be closed.

Dr. Hoo said that he thought it was important that the use of takrouri be suppressed in Africa as a precedent. Otherwise it would be difficult to secure the approval of the British Government of a policy for the suppression of smoking opium and other dangerous drugs in the Far East.

After discussion it was decided to hold another meeting on Wednesday, January 13, 1943, at 9:00 o'clock a.m. in Mr. Anselinger's office; that the Foreign Policy Association would endeavor to have representatives of Australia and New Zealand present and that Mr. Anselinger would ask Colonel Sharman of Canada to be present.

MEETING IN THE OFFICE OF THE
COMMISSIONER OF NARCOTICS,
JANUARY 13, 1943. 9 A.M.

PRESENT: Mr. Harry J. Anslinger, Commissioner of
Narcotics,
Mr. Herbert L. May, Vice President of the
Permanent Central Opium Board and mem-
ber of the Drug Supervisory Body,
Dr. Joseph P. Chamberlain, Professor of
Public Law, Columbia University,
Mr. L. R. McIntyre, Second Secretary of the
Australian Legation,
Mr. T. R. Aikin, Second Secretary of the
New Zealand Legation,
Mr. George A. Morlock, Department of State.

Mr. May explained that he was a member of the Board of Directors of the Foreign Policy Association and since 1928 had been engaged in opium and drug control work. He was present at this meeting, however, as a member of the Opium Research Committee of the Foreign Policy Association. He thought that the present was a good time to have informal discussions in order to ascertain whether further progress could be made in the problem of the suppression of opium smoking and possibly in connection with the limitation of production of narcotic raw materials, first the poppy and later coca leaves. A meeting had recently been held attended by Dr. Victor Hoo and Dr. Lieu, Chinese, at which the smoking opium problem had been discussed, particularly in connection with suppression in the event that the allied forces reentered territories now occupied by the Japanese and suppression at the close of the war.

Mr. Anslinger stated that Colonel C. H. L. Sharman, Chief of the Narcotics Division of the Canadian Government, was to have attended this morning's meeting but found it impossible to come; that Colonel Sharman's views on the subject for discussion, however, coincided with or were parallel to those of the American Government; and that Dr. Lieu was in New York and could not be present. Mr. Anslinger said with regard to the subject of smoking opium that in all territories recaptured

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and recaptured by the military forces of the Chinese National Government, those forces would abolish the smoking opium monopolies which have been maintained and encouraged by the Japanese and that in the event that Chinese forces took over areas in Burma, they would immediately suppress opium smoking.

Mr. May thought it would be a good idea to have an exchange of views among those interested in the Pacific area.

Mr. Analinger said that there had been, just before the war, some illicit traffic between Australia and Honolulu involving smoking opium sold by the monopolies and some illicit smoking opium. Because of this he felt that Australia would be interested in plans for the suppression of smoking opium in the Southwest Pacific.

At the suggestion of Professor Chamberlain, Mr. Morlock said that the Department had information that as regards the cultivation of the opium poppy, the Chinese National Government had almost completely suppressed such cultivation in the areas over which it had jurisdiction, with the exception of areas in the wild and mountainous sections of Western Yunnan and Southern Sikkim, and that as regards suppressing smoking opium it had been very successful in all sections except Sikkim and parts of the province of Yunnan. The Department also had reports that the cultivation of the opium poppy and the traffic in opium and other narcotic drugs in China was forbidden by law and that the law was being reasonably well enforced.

Mr. Analinger said that he assumed that the British would take over the opium monopoly in Burma in the areas they recaptured.

Mr. May commented that the Chinese are interested in suppressing the smoking of opium in the areas they recapture for reasons of health and economics. He also said that the Governments of Canada and the United States feel that so long as the smoking of opium is permitted there will be smoking of that substance; that the Western European countries are interested in the limitation of the production of raw materials as one of the best means of controlling the situation because the production of raw opium cannot be limited until the

world's

world's legitimate demands for raw opium are known. He added that the abolition of smoking opium was therefore important as a first step and that he hoped that Canada, New Zealand, Australia and the United States would be able to see this problem eye to eye. Mr. May said that he got the impression in London last fall at a meeting attended by members of the Opium Advisory Committee, the Permanent Central Opium Board and the Drug Supervisory Body that at the close of the war if the Chinese Government demanded the suppression of opium smoking, the powers that possessed colonies and territories in which smoking opium monopolies have heretofore existed would be willing to listen to the Chinese Government. Mr. May then inquired whether the Government of Australia had ever made an official expression of policy on this subject.

Mr. McIntyre said that the subject was one with which he was not familiar, that Mr. Watt of the Australian Legation knew more about it than he did. He was of the opinion that the subject was not one in which Australia had taken close interest in the past few years. He was aware that Australia had taken an active interest in the proceedings of the Opium Advisory Committee of the League of Nations but did not know of any expression by the Australian Government of policy or opinion in regard to the opium smoking problem.

Mr. May commented that the Opium Advisory Committee was concerned with the illicit traffic and that the Permanent Central Opium Board concerned itself with the legitimate traffic and that Australia had cooperated thoroughly with these organizations.

Mr. Anslinger recalled that Australia had sent a delegate to the Narcotics Limitation Conference of 1951 at Geneva.

Mr. McIntyre said he felt that Australian policy, broadly speaking, would be in line with that of the United States.

Mr. Aickin said that that would be the position of New Zealand also and that the Minister of New Zealand had told him that the Government of New Zealand would cooperate in this matter if anything could be done. From time to time illicit narcotics had reached New

Zealand

Zealand and had been promptly confiscated. Only legitimate stocks were allowed to enter New Zealand.

Mr. McIntyre said the feeling of the Minister of Australia and of the Government of Australia was similar to that of the Minister of New Zealand and the Government of New Zealand.

Professor Chamberlain suggested that Mr. May make a brief statement in regard to the control of manufactured drugs.

Mr. May explained that the system of control under the international conventions was built up on estimates of the legitimate needs of the countries of the world and that the Drug Supervisory Body, whose members do not represent governments, reviews and passes on these estimates, which are required to be submitted by countries before August 1 annually, and that if a country should import beyond its estimates, an embargo could be declared and the countries of the world notified to cease exports to such a country. He said that this system is in effect at the present time, notwithstanding the war, in all parts of the world except Axis Europe and Japan and the areas occupied by the Japanese military forces. For this year the estimates of 48 countries have been received. Mr. May added that the Opium Advisory Committee, whose members represent governments, deals with the whole subject of drug control. Mr. May also said that at the beginning of the war most of the countries of the world had replied to an inquiry from the Permanent Central Opium Board to the effect that they were interested in seeing drug control work continue without interruption during the war.

Mr. Shelinger said that wherever American military forces occupied territories, the opium smoking monopolies would be closed.

Mr. Wickin inquired what action the British would take under similar conditions.

Mr. Shelinger said that he believed the British and the Dutch would continue the monopolies. On the other hand, he said that if the United States naval forces should occupy Borneo, the opium monopoly in that territory would be suppressed; that United States

policy

policy would be to seize the opium, probably destroy it and close the shops.

Mr. May said he understood that Mr. Anslinger meant that for the period of the occupation, until a peace treaty were concluded, the monopolies would be suppressed.

Mr. Anslinger said that Australia might be faced with the problem also because her military forces would be involved. He pointed out that unless a policy were agreed upon in advance, there might be a clash of policies. He also said that he did not know whether the Japanese had placed Japanese or local officials in charge of the opium monopolies in the areas they have occupied but he felt that they would not have allowed the British to function.

Mr. May inquired whether the Australians had an opium smoking problem in the mandated areas under their jurisdiction.

Mr. McIntyre said that the problem had not arisen in such areas.

Mr. Aikin said the problem had not arisen at all in areas under the jurisdiction of New Zealand.

Mr. Anslinger stated that just last week at New York a seizure of 48 cakes of Indian opium bearing markings of the Indian Government had been seized in spite of the fact that opium is well controlled in India.

Mr. Aikin said he assumed that the United States Government was interested in the opium problem from the humanitarian point of view. Professor Chamberlain replied that this Government is also interested from the economic point of view and that it is a ticklish question.

Mr. Anslinger said that the Canadian problem is similar to that of the United States as Canada is also a victim of smuggling from abroad. He added that most of his trouble is with heroin which has been smuggled from the Far East and that both Chinese and white people in the United States are addicts.

Mr. May said that he thought the attitude of the British Government could be ascertained from past

records

records; that the British would be in agreement with the United States on some points but they would probably also have to consider the question of revenues and the administration of colonies and territories under their control in the Far East. The British would perhaps argue that the tin mines and the rubber plantations could not be operated unless the smoking of opium were permitted. Mr. May called attention to the fact that the International Labor Organization people held that Chinese workmen could be obtained for the tin mines and the rubber plantations even if the smoking of opium were forbidden. He also stated that the Chinese resent the fact that in most of the territories smoking opium is kept away from the natives and Europeans and is made available to the Chinese.

Mr. Anslinger said that he had the feeling that the weakness demonstrated in many of the Far Eastern territories last winter was the result of the opium smoking habit and called attention to the manner in which the Filipinos had resisted the Japanese in cooperation with the forces of the United States.

Mr. Morlock said that in Burma there were about 20,000 Burmese smokers, 15,000 Chinese smokers and about 11,000 Indian eaters of opium and that in the Netherlands Indies there were about 45,000 Chinese smokers and about 35,000 native smokers. He also drew attention to a curious statement which appears in the report of the Netherlands Indies Government on prepared opium for the year 1940 to the effect that consumption of opium is authorized only in cases in which refusal would lead to illegal consumption.

Mr. Anslinger said that the Dutch always have stated that they could not abolish their opium monopoly system until smuggling ceased and that the British and the French also used the same argument in defending their monopolies.

Professor Chamberlain stated that China is determined to prevent the smoking of opium among Chinese abroad and that for this reason the problem of opium smoking should be attacked next.

Mr. Anslinger said he believed that the success of China's six-year plan for the suppression of opium

and

and other narcotic drugs had frightened the Japanese as the Japanese saw that China, after throwing off the opium habit, would become a strong power. He said, however, that the situation in India is of another order and that it is an internal matter. Nevertheless, it is worse than the situation in China because of the enormous consumption of opium.

Mr. May said that he regarded opium smoking as a problem of the Pacific and that if Canada, Australia, New Zealand and the United States would say that it was necessary to abolish the smoking of opium, Great Britain and the Netherlands might fall into line.

Mr. Aikin suggested that the question might be placed on the post-war agenda.

Professor Chamberlain said that one should bear in mind that there were two problems, (1) the immediate suppression of smoking opium in the reconquered areas and (2) the eventual suppression of smoking opium.

Mr. Anslinger said that one of the primary concerns was the welfare of the United States troops and that if those troops were placed in contact with opium he felt sure there would be some addiction. In fact, the Army is experiencing the problem right now in connection with marijuana. He added that he had information that in Egypt, British, American, Australian and New Zealand soldiers are acting as carriers of narcotics. Even the Japanese, who thought that their soldiers were immune to narcotics, have found that more than 1,000 of their troops acquired the narcotics habit at Nanking.

Mr. Aikin inquired whether representations had yet been made to the British Government on this subject.

Mr. May replied in the negative and emphasized the fact that the discussions so far had been purely informal and unofficial.

Mr. Anslinger said that the question had been raised whether to bring the matter before the Pacific Council.

Mr. McIntyre said that after the war we will very likely have the British, the Dutch and the French having

to go along and do away with the smoking of opium but that he thought that the immediate problem in connection with the occupation of territories by troops was the serious one.

Professor Chamberlain said that he thought it would be difficult for the colonial authorities of Great Britain and the Netherlands to defend the monopoly system; that it was not a question of suppressing smoking opium in the interests of the natives but in the interests of the world.

Mr. McIntyre inquired whether this question came up at the conference of the Institute of Pacific Relations at Mt. Tremblant, Canada.

Professor Chamberlain said that he did not think so.

Mr. Anslinger said he was reasonably sure that it did not because if it had he would very likely have heard of it from Canadian sources. He added that it would be impossible to have the four freedoms and still sell opium. Mr. Anslinger then asked for a suggestion with regard to a suitable approach to the interested parties, the British, the Dutch and the French, as it was difficult to work out a practical course.

Mr. McIntyre said that his immediate problem would be to find out how strongly the Australians were thinking about the matter; that his own feeling was that the Australians felt about the matter the way we do here; that he knew there was a large group--the Governmental group in Australia--which was seriously thinking of every angle in connection with the general problem in the South-west Pacific area but that when he left Australia several months ago the Australians were not giving any particular thought to this matter of smoking opium. His first inclination would be to bring the problem before them, present it as a problem--a most important one--and set them to thinking about it and see how they feel about bringing it into the general picture after the war. As for carrying it beyond Australia, if he were to report the discussion of this morning he had no doubt that the Australians would incorporate the subject in their general discussions and plans but he could not say at the moment whether their suggestion would be to raise the matter

informally

informally with the United Kingdom Government and with the Netherlands East Indies Commission in Australia. These were things which would have to be done at the earliest possible moment. Mr. McIntyre asked to what extent this meeting was formal or informal.

Mr. Anslinger replied that he and Mr. Herlock were attending the meeting informally; that both had expressed views that have been held by the United States Government for years and that he was sure that these views would be approved by the Treasury and State Departments. He added that he was cooperating closely with the Foreign Policy Association and was anxious to see something started in an official way in order to bring about better feeling.

Mr. McIntyre inquired about the opium smoking problem in the Philippines.

Mr. Anslinger said that there was smoking of opium in the Philippines; that the United States Government tried to suppress it and succeeded very well but that there was constant smuggling of smoking opium from Hong Kong in particular.

Mr. May said that there was very little smoking of opium in the Philippines in comparison with what there would have been if the United States had established an opium smoking monopoly.

Professor Chamberlain wondered what machinery would have to be established to suppress the opium monopolies, whether it would be done by simple prohibition or by prohibition of transportation or by policing, whether, perhaps, the Permanent Central Opium Board could help.

Mr. May commented that the job of the Permanent Central Opium Board was largely to prod the national organizations.

Mr. Anslinger remarked that 31 years had elapsed since the signing of the Hague Opium Convention, under which the signatories agreed gradually to suppress the smoking of opium.

Professor Chamberlain stated that officers of the United States Army and Navy are studying problems, including the opium smoking problem, in connection with

the

the study of the administration of territories about to be reoccupied.

Mr. McIntyre inquired whether these officers had been given instructions in regard to the suppression of opium smoking.

Mr. Anslinger replied that such instructions had been given categorically.

Professor Chamberlain said that by the time United States forces get into the Pacific, the Army and Navy will understand the problem and will be ready to move against it.

Mr. Anslinger said that he desired to avoid a clash with the British and the Dutch in the Far East over this matter by ironing out the difficulties first.

Mr. McIntyre inquired whether there had been any discussions with representatives of the British Government.

Mr. May replied that while he was in London last September he had not discussed the matter with anybody in authority but had spoken to officials and former officials of the British Government who were thoroughly familiar with the subject and that the view they expressed was that they thought it was a political problem and that if the Chinese asked for the suppression of smoking opium, they would probably get it. That view was the long-term view under the international conventions; there was no discussion about the interim period of occupation. He said he thought the suppression of the opium smoking monopolies by the British and Dutch Governments without awaiting the request of the Chinese Government would be a good gesture comparable to the relinquishment of extra-territorial rights in China.

Mr. Anslinger said he thought such a move would be the smart thing to do; that it would be a good political move and would please the Chinese, who are bitter on the subject.

As all present felt that the subject had been thoroughly discussed, the meeting then adjourned.

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It was tentatively agreed to convene another meeting on March 17, 1945 and to request the presence of representatives of Great Britain, the Netherlands, China, Canada, Australia and New Zealand.

STRICTLY CONFIDENTIAL

MINUTES OF A MEETING IN THE OFFICE
OF THE COMMISSIONER OF NARCOTICS,
MARCH 17, 1943, 10 A.M.

PRESENT: Mr. Herbert L. May, Director of the Foreign Policy Association,
Professor Joseph P. Chamberlain, Director of the Foreign Policy Association,
Mr. Alan S. Watt, Counselor of the Australian Legation,
Mr. Cecil E. King, Second Secretary of the British Embassy,
Mr. N. A. J. de Voogd, Secretary for Japanese Affairs, Commission for the Netherlands Indies in the United States,
Mr. Harry J. Anslinger, Commissioner of Narcotics,
Colonel C. H. L. Sharman, Chief, Narcotic Division, Department of Pensions and National Health, Canadian Government,
Mr. George A. Morlock, Department of State.

Mr. May explained that General Frank McCoy, Mrs. Helen Howell Moorhead, Professor Joseph P. Chamberlain and he were Directors of the Board of the Foreign Policy Association and were also members of the Opium Research Committee of that organization and that Mrs. Moorhead was unable to be present because of illness. He said that the Opium Research Committee had followed closely all developments in the opium field for more than twenty years and that the members of that Committee felt that it would be well to have informal discussions on questions not only affecting the Pacific area and opium smoking but those connected with the situation which will prevail after the war. He added that so far the discussions had been confined to the question of opium smoking and that Professor Chamberlain and he hoped that the discussions would be given a more formal character later in connection with the plans of the United Nations in regard to the distribution of raw materials and so forth. The problem of smoking opium presently being discussed involves the question of what should be done in case some island or territory is occupied by the military forces of the United Nations where a smoking-opium monopoly exists. That is the immediate problem. The long-range problem is what should be done in regard to the opium monopolies and the opium problem in general. The immediate question which has been posed in these discussions is "What will happen if the American

forces should occupy a country or island where opium smoking has been permitted in the event that there is a joint occupation?"

Another question is "What will happen if the British or the Chinese alone should reoccupy Burma, for example?" These discussions are informal. These meetings have no special standing but it is hoped that as a result of these meetings there will develop a common point of view which can be formalized, perhaps, by consultation of the proper bodies.

Professor Chamberlain said that he had nothing to add to Mr. May's statement of the aims of the meetings and then asked Mr. Anslinger if he wished to make a statement in regard to the attitude of the Chinese concerning the question under discussion.

Mr. Anslinger said that the Chinese National Government had a six-year plan for the suppression of the cultivation of the opium poppy and the smoking of opium and had made good progress, up to the time the war started, in the area under its control; that they had done an excellent job in ridding the country of opium; that in all areas which they are retaking from the Japanese they are immediately stopping the sale of opium, seizing all opium, destroying all opium and prohibiting the smoking of opium; and that they intend to pursue that policy wherever their military forces take over. For instance, if they should occupy Burma, as Dr. Lieu said at the meeting on December 4, 1942, they certainly would not permit the sale of opium. Mr. Anslinger added that a clash of policy would probably occur between the Chinese and the British because so far as he now knew, the British would not adopt a policy of complete suppression of opium smoking in territories in which they formerly had jurisdiction. Dr. Lieu had also said that it was the experience of China that the cessation of sales of smoking opium to addicts had not resulted in fatalities among the addicts. Mr. Anslinger said that the suppression of smoking opium would assist in building a stronger and better people; that the problem is principally one for the Chinese; that they are determined to suppress the use of smoking opium in China and particularly among overseas Chinese when they recapture any territories.

Mr.

Mr. Anslinger said that the American forces would follow a similar policy; that he was sure that wherever American forces occupy territories, the smoking-opium monopolies would be immediately suppressed; and that those forces would try to find the opium stocks and close up the opium shops in areas where the British, Dutch or Japanese had formerly been in control. Mr. Anslinger drew attention to a Japanese broadcast on March 10, 1943 in which a Japanese spokesman said that the Japanese had stopped the sale of opium in all parts of the Far East where they have occupied territories. In this broadcast, of course, they were trying to counter the propaganda from the United States.

Colonel Sharman commented that the Japanese might find it profitable to suppress smoking opium and then to sell heroin.

Mr. May said that the Chinese probably felt as strongly about opium smoking as they did about extraterritoriality and that with them it is a very important political problem. Mr. Anslinger said that the Chinese felt even more strongly about opium than about extraterritoriality; that this feeling has not yet broken out but that in due time it will. He added that the Americans are going along with the policy of complete suppression just as they did in the Philippine Islands because under United States laws no other policy is possible.

Mr. May stated that at the Opium Advisory Committee meetings at Geneva an effort was made to devise a convention for the limitation of raw materials as sources of the drug traffic and it was universally recognized that before an estimate could be made of the world's needs for medicinal and scientific purposes, it would be necessary to control the opium smoking problem.

Mr. Anslinger said that the American military authorities would find it necessary to declare areas where opium smoking shops existed as "out of bounds" for the protection of their troops; He felt that there would be an increase in addiction among Americans after the war because of the close association of American troops with opium in the Far East areas. He said that this statement was based on the knowledge that drug addiction springs from

association

association with drugs and addicts. He did not suppose that the Americans would tolerate conditions where the troops could get into such areas.

Colonel Sharman asked whether the American authorities had already declared the marihuana shops out of bounds in Tunisia. Mr. Anslinger replied in the affirmative. He added that the French authorities in North Africa still had civil control and that the Americans had not been able to do anything about closing the shops but that they were trying to get the Regency to stop the sales during the occupation in any case.

Colonel Sharman said, with the understanding that everything was "off the record", that he wished to remark that Canadian troops in one of the West Indies had got infected with marihuana and at certain stages of the war were brought back to Canada and that he was astonished at the number of cases of addiction. He added that the soldier in the tropics easily falls a victim to such addiction through association and contacts and that the infection spreads like wildfire.

Mr. Watt said that the minutes of the last meeting contained the information that in Egypt, British, American, Australian and New Zealand soldiers were acting as carriers of narcotics and that he would like to have more information if it were not very confidential. Mr. Anslinger said that it was information given to him by Sir Thomas Russell in seizure reports; that in these reports the Egyptian Government naturally did not want to stress the matter too much for fear of unfavorable publicity. Mr. Watt said that perhaps Mr. Anslinger could give him the information at a later date. He added that the Australians wanted to know what the problem is. Mr. Anslinger said that an American Army officer had looked into the situation and had had talks with Sir Thomas Russell and had said that the troops had acted as carriers. Mr. Anslinger further said that he noticed a week ago that the Italians picked that up and broadcast it, saying that United States troops were being debauched in Egypt.

Colonel Sharman remarked that the traffic is due to the desire of some soldiers to increase their finances, although in the case of the Americans they do not need extra money to the same extent.

Mr.

Mr. May said that so long as opium smoking is permitted in the Far East there is a possibility of troops acquiring addiction and of drugs being smuggled from countries in the Far East to countries in the West.

Mr. Anslinger said that the United States has had much opium smuggling from Hong Kong and that Colonel Sherman has had more experience in that connection than has the United States. He suggested that Colonel Sherman tell his story.

Colonel Sherman said that Canada had opened a Legation at Chungking a year ago and that he had informed Dr. Victor Hoo that he was in favor of suppressing opium smoking wherever found. He said that whereas 15 years ago Canada had handled 150 cases of opium smoking a year, Canada had only two cases in the past five years; that it has been almost completely stamped out as a matter of domestic policy; that the Canadians put the problem before the British in no uncertain terms as regards the smuggling of smoking opium from Hong Kong to Vancouver; and that there was a lot of trouble ten years ago with the Canadian Pacific Railway concerning their ships in the Pacific until several fines of \$40,000 each were imposed on the owners by the United States on account of seizures of drugs. Then they got interested and began to place special agents on board their ships. People had been found traveling on these ships who were neither sailors nor passengers but racketeers. One got killed and another was thrown overboard, while a member of the police barely escaped with his life after he was poisoned. Each of those vessels had up to six hundred Chinese as crew members. They would buy all the opium they wanted at Hong Kong, which was under the British flag, from a Government vendor and take it out on the Empress ships. They would smoke some of it on the way over. It cost the Canadian Pacific Railway \$20,000 a year for trained detectives to control the situation on the ships. A can of opium used to cost \$32 at Hong Kong or Singapore and would sell for \$50 to \$100 at Vancouver. When found in illegal possession of smoking opium, the offenders are sent to jail under the same flag as the one under which they obtained the opium. To a certain extent the Blue Funnel Line was also a carrier. Colonel Sherman said further that it was difficult for the Canadians to have that sort of thing going on under the British

flag

flag, and he pointed out that the cost of suppressing this illicit traffic was greater to the public than the value of the drugs needed by Canada for legal purposes. He also said that the more successful the Canadian Government was in suppressing the illicit traffic, the higher prices went and the more the racketeers were encouraged to attempt smuggling. A can of smoking opium at Vancouver now sells for \$950, the highest price in the world. Colonel Sherman stated that at Geneva the Canadians have tried to do their best to suppress opium production to the limits of medicinal needs. Colonel Sherman said he was trying to be as dispassionate as possible. He said that Mr. Nind, the Indian delegate to the Opium Advisory Committee at Geneva is a friend of his, that for weeks they served together on the special limitation committee, and that Nind said he was not free to discuss the limitation of opium in the Indian States; that he admitted that there were 6,000 shops selling opium in those States. Colonel Sherman queried "How can you suppress opium if you have 6,000 shops in India?" He said that although India does not export opium to China any more, it does export smoking opium to Zanzibar on the ground that there are Indians there. He asked why shipments should be allowed to Zanzibar. If it is admitted, he said, that it can be shipped to any place where there are Indians, it could be shipped also to Canada. Colonel Sherman stated that personally he is in favor of any plan which involves the disappearance of opium in excess of medical needs.

Mr. May said that he supposed the Chinese would request that opium smoking in the Far East be banned and that he presumed also that the countries which have monopolies there have considered what they are going to do about it and have considered also whether to make a gesture in advance of a demand on the part of the Chinese Government to suppress smoking opium and thus add to their prestige in the Far East.

Mr. Anslinger suggested that it would be something like the relinquishment of extraterritoriality. Professor Chamberlain said that Dr. Victor Hoo lays more stress on the suppression of smoking opium than on the relinquishment of extraterritoriality. He is now Vice Minister of Foreign Affairs at Chungking. Professor Chamberlain added that Dr. Hoo said before he left Washington that this was one of the most

important

important things he was going to take up with his Government.

Mr. Anslinger said that the attitude of the Netherlands Government in the past has been that it could not suppress smoking opium while the illicit traffic existed. Mr. de Voogd said that the attitude of his Government has been that since opium could come illicitly to the Netherlands Indies, the best way to handle the situation was to keep smoking opium under control and in that way gradually prepare for the total prohibition of opium smoking. Mr. Anslinger remarked that these arguments were familiar.

Colonel Sharman said that just before the outbreak of the war in the Pacific, Australia was innocently assuming a role of participation in smuggling into the United States and Canada. The stuff was coming on ships to Sydney enroute from Singapore and Hong Kong and was then reshipped to the United States and Canada via Honolulu.

Mr. de Voogd said that one thing that struck him was that the more one tries to suppress opium the higher the price goes in the illicit traffic and the more profitable the illicit traffic becomes, which is an encouragement to smuggling. The old argument was that when one raises prices there would be competition among the traders and a better control of the trade. It struck him that it should be realized that in any country when one raises prices as in Canada, it is more difficult to suppress the illicit trade. When prices rise, the possibility of getting people interested in the trade is greater. So long as opium products are high in price it is difficult to suppress the traffic no matter how much you endeavor to do so.

Mr. Anslinger said that the Americans never allowed the sale of opium in the Philippines and that when the Japanese moved in, it is not likely that the United States would have got the support which it did get from the Filipinos if the United States Government had sold the Filipinos opium for a generation as had been done by the British Government in Burma.

Mr. de Voogd inquired in regard to the experience of the United States in the Philippine Islands concerning the suppression of smoking opium.

Mr.

Mr. Anselinger said that there had been an underground traffic but that it was no longer a problem such as existed in Hong Kong. He had no doubt that the Filipinos would have smoked had the United States Government permitted it. In the Philippines most of the smokers were Chinese.

Colonel Sharman said that when detectives were put on the Empress liners it was found that smoking opium was going from Hong Kong to the Philippines and also to Canada but that it was just as difficult to get the opium into the Philippines as it was to get it into Canada.

Mr. May said he felt that the Dutch would go along and suppress smoking opium if the suppression were universal. Mr. de Voogd said that he was personally convinced that his Government would be willing to go to extreme limits through a generally applied international arrangement for humanitarian reasons. Mr. Anselinger remarked that one cannot have the Four Freedoms and still sell opium.

Mr. de Voogd said that as far as he could see, all governments concerned agreed to the final object to be reached, viz., total prohibition of opium smoking, and that the differences of opinion concerned only the methods to be applied to reach this aim. As long as opium was available in the Far East in such large quantities, the Netherlands Government has been of the opinion that the best possible way of limiting and finally abolishing the use of opium was a system of government control. Under this system the use of smoking opium in the Netherlands East Indies had been reduced in 1939 to one half of what it was in 1930. Mr. Anselinger pointed out that many of the smoking opium addicts have turned to heroin to satisfy their addiction and that the representatives of the Netherlands Government at Geneva have reported large heroin seizures. He stated that there had been a reduction in the number of registered smokers but that the trade showed that monopolies did not reduce the number of smokers. As in Hong Kong, the monopoly was costing the Government money instead of bringing money in. If the monopoly had not existed and the money it took to pay for the monopoly had been given to the police, the police could probably have suppressed the smugglers.

Colonel

Colonel Sharmen said that of course China is the key to the situation from the production standpoint and that there is no use asking Great Britain or the Dutch to do anything until opium production ceased in China. Mr. de Voogd said that international cooperation would be the solution to the problem and that the production of opium had a bearing on the control of the monopolies. Colonel Sharmen pointed out that the medical needs of the world are about 260 tons and that it had been pointed out at Geneva that there was huge excess production in the world. A survey made in China by the United States Government indicated that the production of opium in China in 1937 was estimated at 2,200 tons. He believed that the Chinese Government is now doing a good job in the control of opium production. Professor Chamberlain said that China seems to be sincere and that the rest of the world should not hold back but should take advantage of this great opportunity.

Colonel Sharmen said he understood that present American policy through military action would be to suppress opium smoking.

Mr. Anslinger said that the answer was "Yes" in the territories controlled by the Japanese; that the same policy will apply regardless of the territory where the American forces are in occupation.

Mr. de Voogd asked whether the Americans would find any smoking opium in the Netherlands Indies now. Mr. Anslinger said that he was quite sure that the scorched earth policy would not apply to opium.

Mr. de Voogd also inquired whether the Japanese are importing opium. Mr. Anslinger said that in Burma they reduced the tax on opium so that the people could buy more cheaply from the Japanese than they had been able to do from the British. Mr. de Voogd remarked that that was propaganda. Mr. Anslinger admitted that this was so and that on the part of this country the Japanese have been hammered in the press and in magazines and that the Japanese counter almost every month. He said that opinion in the United States was crystallizing against the opium monopolies and he read the following excerpt from a letter from an American who lived in Hong Kong just before the war:

"Hong

"Hong Kong was founded on and, indirectly at least, was lost due to traffic, official business for profit, based on Opium and other narcotics. Under the enforcement of the Harrison Narcotic Act, our Treasury Department cleaned up illicit traffic in narcotics in America. What has our State Department done to limit the opium trade as a means of colonial exploitation in Hong Kong.

"Under the status quo, providing the American Navy should capture Hong Kong tomorrow, the official opium stores would probably be reopened by next week.

"Should the American Navy indirectly foster the opium trade abroad when they condemn it at home?"

Mr. Anslinger said that this letter was typical of American reaction and also of Canadian reaction.

Mr. de Vooys inquired about the situation in India. Colonel Sharman said that that situation will have to be faced. Mr. Anslinger stated that about the first of this year a seizure of Indian opium in the illicit traffic in the United States was made for the first time; that in India the annual consumption of opium is about 500 tons, or twice the needs of the entire world for medical and scientific purposes.

Colonel Sharman said that since the outbreak of war an Empress boat came to Vancouver and the Chinese crew members went ashore. Chinatown was flooded and it cost the Canadian Government about \$3,000 to round up the opium and prosecute the Chinese traffickers in the opium so landed. It was found that some of the opium was Iranian and some had Singapore markings; in fact, it came from all over the world. The crew members invested all their available money in opium. Colonel Sharman said that Canada has the same problem at Halifax, where boats with part Oriental crews arrive, and that there are still opportunities to buy opium all over the world.

Mr. May said that he thought that he was correct in thinking that so far as the present problem is concerned, the British in the British Isles and the Dutch in Europe are opposed to smoking opium monopolies.

Mr.

Mr. May said that there was a colonial problem and a health problem and that the problem had its financial aspects also. It seemed to him that when the political question enters, the United Nations are in agreement upon enough big problems that they should not disagree on the opium problem. He believed that all friction could be ironed out.

Mr. Watt said that he could not say what the viewpoint of his Government would be in the present situation. Mr. May said that this meeting was informal, that one could speak without binding himself or his Government. Mr. Watt said that he personally had no technical knowledge of this subject and was not in a position, therefore, to give detailed information about Australian opium policy of the kind which could be supplied by technical officers. He would, however, attempt to estimate the reactions of Australians as a whole to the matters raised in discussion and comment upon some political aspects of the problem. Australians, of course, wholeheartedly supported efforts made to reduce the evils of opium smoking. They supported this policy on humanitarian grounds. If traffic in opium or opium smoking in Australia were increased for any reason, and this became known to the public, public opinion would undoubtedly press for its suppression. Australia had cooperated in the international regulation of drugs by ratifying certain international conventions, and he had no doubt that the administrative authorities in Australia would cooperate with such authorities in other countries regarding seizure of opium and other means to suppress the illicit traffic. So far as the suppression of opium smoking outside Australia in other areas of the Southwestern Pacific and the Far East was concerned, however, he doubted whether Australia had a definite policy as yet. This was not unnatural, because the Government was concentrating on problems connected with the possible invasion of Australia by the Japanese, rather than upon problems which would arise when Australians with other United Nations forces invaded territories now occupied by the Japanese. Thus he did not think that Australia had at present any definite view on the question whether opium smoking could be abolished in some areas outside Australia without substantial economic consequences which other countries might wish to avoid. A step in formulating such an Australian policy had, however, been taken as the Australian

Legation

Legation had forwarded to Australia the substance of the informal discussion which took place at the meeting held on January 13, 1943. So far no reaction from Australia had been received but the matter could be taken up again after this meeting when the results of the discussion were sent to Australia. Mr. Watt said that on the political side he had little doubt that the Australian Government would not wish to have two conflicting policies put into force by troops collaborating in the same occupied area or even in areas alongside one another. Just what policy the Australian Government would support he was not in a position to say, but he felt sure they would desire to see one policy in force rather than two conflicting policies. Summing up his remarks, Mr. Watt said that on the humanitarian side Australia undoubtedly supported efforts to minimize or extinguish opium smoking and was not likely to tolerate an increase in Australia; she had collaborated in certain international action through international conventions; as regards the economic effects of abolishing Government monopolies in areas outside Australia, he did not think the Australian Government had yet considered the problem thoroughly or reached a conclusion. Informal discussions such as these reported to Australia would provide a means of bringing the importance of the subject under the Government's attention.

Professor Chamberlain commented that the Australians have vigorous support at home. Mr. Anelinger said that he had observed a substantial traffic developing in Australia before the war. Mr. Watt inquired whether this was going or coming. Mr. Anelinger replied that it was going to Australia and coming from Australia. There was a two-way traffic which the Australian police promptly suppressed. The Americans had given the evidence on which the action of the Australian authorities was based. There was also addiction in Australia in the last few years. In Sydney there was a substantial opium traffic in some of the restaurants used as places of distribution.

Colonel Sharman said that it had been found by experience that one way of making sure that the traffic is controlled is to increase the penalties. The traffickers then prefer to go elsewhere. The Canadians had that exemplified when marihuana became a serious menace. Men came up from New York and sold

marihuana

marihuana cigarettes at 40 cents each. The courts at that time did not know anything about the drug. Colonel Sharman said that he had an article in regard to marihuana multi-graphed and sent to the courts. Subsequently a case came up involving the smuggling of marihuana into Canada by the boatswain of a Canadian liner and the judge gave the offender four years. The overseas traffic stopped. That is one way to keep the traffic away, he said.

Mr. Anslinger corroborated Colonel Sharman's remarks. He queried whether that was not the weakness in the Far East where the opium monopolies exist and penalties are so low. Mr. de Voogd said that that was true, he supposed.

Mr. Watt said that he might add one point. The Australian policy is not clear here but the Australian Foreign Minister, Dr. H. V. Evatt, will be here in a few weeks and if the interested persons here cared to discuss this matter with him, it would probably be possible to arrange it. The matter would undoubtedly be brought to his notice by the Legation during his stay in Washington. Of course he would have to take the problem back with him and consider it. Mr. Key inquired whether Dr. Evatt would attend a meeting of the Pacific War Council in Washington. Mr. Watt said that Dr. Evatt would undoubtedly attend the Pacific War Council meetings but it was very unlikely he would feel justified in raising this particular matter, in view of other urgent and important problems on which he would feel bound to concentrate. Dr. Evatt's visit, however, would provide an opportunity for informal discussions of the opium problem. Mr. Anslinger suggested that the Foreign Minister might start discussions in Australia among people who must consider the policy to be pursued. He believed that Dr. Evatt would be glad to learn that Canada and the United States have a clear-cut policy on this matter. Colonel Sharman said that Mr. Anslinger's remarks should not be interpreted to mean that Canada and the United States had a joint policy. He added that while the views of Mr. Anslinger and himself coincided in relation to the desirability of handling and seizing all opium not required for medicinal purposes, the Canadian policy had not as yet been formulated nor discussed. He said that Dr. Evatt is probably the first Foreign

Minister

Minister who will run into the situation envisaged by today's discussion.

Mr. Anslinger inquired of Mr. King whether he had any remarks to make. Mr. King said that he feared that he was not familiar with the problem; that he took an interest in it in a general way but did not know anything about what the British Government is thinking or doing about it; that he had no technical knowledge.

Mr. de Voogd said that he too had no information as to the planned future policy of the Netherlands Government in this respect and that he did not know what has been done since the occupation of the Netherlands East Indies.

Mr. Anslinger said that he could visualize the problem of troops going into Dutch territory.

Mr. May said that Lord Halifax is informed on the subject; that Mrs. Moorhead had talked with him several years ago and had also written to him about it. Mr. Anslinger inquired whether Mr. King would make a report to the Ambassador on the question. Mr. King responded that he would do so.

Professor Chamberlain commented that Lord Halifax would know the situation in India pretty well. Mr. May said that it might be well if Mr. Eden had ten minutes to think about the question. Mr. King said that Mr. Eden's program was pretty well filled up.

Mr. Anslinger said that there are numerous journalists in this country who have taken an interest in this problem and who will write articles in magazines with the idea of throwing it in with other world problems.

Mr. May said that many people ask if the British are not the greatest offenders as regards the opium traffic; that he always replies that the British stand at the top of the list as regards control of drugs for medicinal purposes but that he always has to admit that they do operate opium monopolies. Mr. Anslinger commented that that is the attitude of people all over the world. Mr. May said that he usually describes the American viewpoint and leaves it to his audience to make up their own minds.

Professor

Professor Chamberlain said that Ambassador Winant, who was head of the International Labor Organization, knew about the opium problem as that organization had drawn up a resolution several years ago in which it was stated that the sale of opium must be suppressed. Colonel Sherman said that at the meeting of the Labor Assembly in Geneva this question was threshed out for a week and that Mr. Winant must have a complete knowledge of it. The countries wanted to suppress the opium monopolies. The resolution was passed and was mandatory. The Opium Advisory Committee could not have prepared a better one. Mr. May said that the Labor Organization investigated conditions in Malaya, the Netherlands Indies et cetera. There was a report to the Chinese Labor Office on working conditions in the mines and on rubber plantations.

Mr. May inquired whether the question under discussion could be further explored. Mr. Anslinger said that avenues of approach could be explored and that the matter could be brought to the attention of the Australian Foreign Minister. Mr. de Voogd said that he would present a report to the Embassy and that it would go to London. It was suggested that Mr. Delgorge could come over and work further on this problem. He has a position in the Colonial Affairs Department in London. He is the only opium expert which the Netherlands Government has at present available. Mr. Anslinger said that Van Blokland was also in attendance at the meetings of the Opium Advisory Committee at Geneva.

Mr. May reminded the gathering that the Opium Research Committee of the Foreign Policy Association is merely acting as sponsor for these informal discussions.

Professor Chamberlain said that the world has an effective method of control now but that it is dependent upon the League of Nations. Before a peace treaty is arranged it will be necessary to consider questions relating to narcotics.

Mr. King said that he was aware that the Permanent Central Opium Board had a meeting in London and that apparently the British Government was informed of what was going on.

Mr.

Mr. Watt inquired whether the Canadian and American policies had been explained as clearly in London as had been done here this morning. Mr. May said that whatever discussions there had been in London were outside the formal meetings and had not been on what should be done in case of an occupation, but, with reference to the opium smoking question, the discussion had been, informally, on the possible future of monopoly systems. In the United Nations Conference opium might be taken up as a separate problem.

Mr. Anslinger said that in North Africa the command might shift from the Americans to the British and that in the Far East the occupation forces will shift around too. He did not want a situation to arise in which the Australians would say that opium was in and the Americans would say it was out.

Colonel Sherman said that outside of himself nobody, so far as he was aware, had discussed or indeed had knowledge of the American policy referred to today, and it would be incorrect to say that there was any Canadian policy in relation thereto, although Canada's position in past years in relation to opium control was well known.

Mr. May remarked that the two Americans most familiar with the subject are Mr. Anslinger and Mr. Morlock.

At this point the meeting adjourned.

* * * *

1 - used to meeting
7/28 - 3:30 P.M.

July 23, 1948.

MEMORANDUM TO THE SECRETARY:

The Netherlands Government has submitted a proposal to the State Department and to the Treasury that the Netherlands Government be permitted to pledge privately owned Netherlands assets in this country for the purpose of securing a loan of \$300 million from this Government to be used to finance post-war rehabilitation and reconstruction in the Netherlands. Certain additional sums may also be requested to cover current budgetary expenses.

In order to permit the pledging by the Netherlands Government of privately owned Netherlands assets in this country as collateral, the adoption of one of the following measures would be necessary:

- (a) Recognition by this Government of the validity of the Netherlands vesting decree.
- (b) Issuing directive licenses compelling the transfer of the assets to the Netherlands Government.
- (c) Vesting the assets in the A.P.C., to be held by him as collateral.

The State Department does not want to recognize the validity of the Netherlands vesting decree but is considering proposing that the funds be vested and held in custody subject to agreements entered into between the State Department and the Netherlands Government.

It is our view that the proposals should be rejected by the Treasury for the following reasons:

1. The Netherlands Government (according to its own memorandum) already holds enormous resources in the form of gold, dollar balances, and foreign exchange amounting in all to more than \$1,050 million, of which more than \$900 million is in the form of gold and dollars. These funds are held in the name of

- 2 -

the Governments of the Netherlands, the Netherlands East Indies, the Netherlands West Indies and Surinam, and the central banks and other official agencies of these areas. This is in addition to the privately owned Netherlands assets held in this country.

In view of the fact that the total budgeted expenditures of the Netherlands Government for 1943 - including military and naval expenditures - total only \$65 million, it is obvious that these resources are, to say the least, more than adequate for all of the needs of the Netherlands Government without touching the privately held funds in this country of Netherlands nationals.

It has been said by the Netherlands Government that the gold and dollar assets of the Central Banks are not available for use by the Netherlands Government because they are held for reserve purposes. It should be noted that the British and other Governments have not hesitated to use the resources of their central banks for war purposes. Clearly the funds of official government institutions should be tapped by the Netherlands Government before calling on us to deliver to them the assets of private nationals of the Netherlands.

Moreover, the credit of the Netherlands Government is such that she would have no difficulty in placing orders for post-war delivery with only a small down payment, particularly if she is willing to subject such orders to post-war priority requirements.

2. For this Government to lend \$300 million to the Netherlands Government would require the borrowing by the Treasury of an approximately equal amount. It would be difficult from the popular point of view for the Treasury to justify to buyers of War Savings Bonds the use of their savings to provide a Government holding the enormous assets of the Netherlands with additional funds for expenditure in the post-war period.

3. The vesting of assets in this country of Netherlands nationals would generally be regarded as the beginning of a process of vesting all blocked balances and securities. Undoubtedly, some banks would feel that such prospective action impairs their reserve position and this in turn would affect their attitude toward bond subscriptions. Further, such action would involve the Treasury in much otherwise avoidable litigation with American creditors as well as Netherlands nationals. The

Treasury ought not to exercise its extraordinary powers on such a matter unless the action contributes directly to the war effort, which clearly the Netherlands proposal does not do.

4. The vesting of these assets at this time would require a large and unjustified expenditure in time and manpower on the part of this Government. When a reconstituted Netherlands Government has been established in the Netherlands it will have full power to enforce its own decrees and will be able at that time to obtain effective control over the dollar and other foreign exchange assets of its nationals with comparative ease. The undesirability of using our limited manpower resources to vest these assets at this time is further increased by the fact that the Netherlands Government, according to its own statement, desires these funds for its postwar reconstruction program.

On the whole, it appears to us that the proposal made by the Netherlands Government is not for the purpose of obtaining funds, of which they have plenty, but rather of strengthening the position of the present government in exile by giving it control over the enormous assets held in this country by private Netherlands citizens.

RB
HDW

Approved: _____, 1943.

JUL 23 1943

Excellency:

This is to thank you for your letter of July 14, 1943 enclosing a communication for me from Mr. H. Strasburger, the Polish Minister of Finance in London, England.

I am enclosing herewith a letter to Mr. Strasburger that you may forward it to him.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

His Excellency, Michal Kwapiszewski,
Minister Plenipotentiary,
The Polish Embassy,
2640 - 16th Street, N. W.,
Washington, D. C.

Enclosure.

File ret. to White's office.
Photo of incoming and copy
of reply in Diary.

JUL 23 1943

Excellency:

This is to thank you for your letter of July 1, 1943 enclosing the interesting memorandum on "Monetary Problems in Poland". I can assure you that careful consideration will be given to the views set forth in the memorandum. I would appreciate it if you would keep me informed of new developments as they are brought to your attention.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency, Henryk Strasburger,
The Minister of Finance,
Republic of Poland,
London, England

File to White's office.
Photo. of incoming ltr.
and enclosures in Diary.

POLISH EMBASSY
WASHINGTON
2540-169 STREET, N. W.

July 14, 1943.

Dear Mr. Secretary,

I take pleasure in sending
you enclosed herewith, a letter
addressed to you by the Polish Minister
of Finance in London, England.

Please accept, dear Mr.
Secretary, the assurances of my highest
consideration.

Encl.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

H. STRASBURGER LL.D.
MINISTER SKARBU
POLISH MINISTER OF FINANCE

STRATTON HOUSE,
STRATTON STREET,
LONDON, W. 1.
GRANDVENUE 4251.

7486/43/S-15

London, 1st July, 1943.

Excellency,

In reply to your letter of 16th April 1943,
I have the pleasure in sending you a memorandum
concerning monetary problems in Poland.

We have expressed in the conclusion of
this memorandum our views on the dollar exchange rate
that might be set for zloty after the liberation of my
country with the help of American Armed Forces.

Very truly yours,



MINISTER OF FINANCE



1 enc.

His Excellency, Henry J. Morgenthau Jr.,
Secretary of the Treasury,
United States of America,
WASHINGTON, U.S.A.

16th June 1943.

MONETARY PROBLEMS IN POLAND.

I. THE CURRENCY CIRCULATION

It is estimated that at the time when the Polish Government left Poland, the currency circulation amounted to a total of zloty 4.7 million, of which 3.700 million were in Bank of Poland notes, and about 500 million in token coins.

This total was much higher than the average level of circulation in the years preceding the war. The circulation rose above its normal level from the moment when the outbreak of the war began to seem imminent and the population withdrew a part of their bank accounts, preferring to have cash in hand.

At the end of 1938 the circulation of the Bank of Poland notes amounted to 1.406 million zloty, and the circulation of silver and token coins to 460 million zloty. On July 31st 1939 note circulation was 1.883 million zloty and token coins circulation 500 million zloty.

The currency circulation in Poland under occupation must be reviewed separately for various districts.

First of all, the Ribbentrop-Holotov agreement divided Poland into two parts, one being under German, another under Russian occupation.

The western part of the German-occupied territory has been incorporated into the Reich while from the remaining part a separate administrative unit, so-called General Gouvernement, has been formed.

In consequence of the Russo-German war the part of Poland, previously occupied by the Russians, has been taken over by the Germans; three provinces of Easter Galicia have been added to the General Gouvernement, while the Bialystok district has formed a separate unit, afterwards "incorporated" into the Reich. Moreover, the northern part of Poland's eastern territory has been amalgamated with the "Reichskommissariat Ostland", and the southern part with the "Reichskommissariat Ukraine".

We enclose an administrative map of Poland under German occupation.

Below we examine the currency situation in each of these areas separately.

A. "INCORPORATED" TERRITORIES. When the German armies entered Poland the rate of exchange between the zloty and the Reichsmark in the occupied territories was fixed by the German High Command at 1 zloty = 1 Reichsmark and the Reichsmark was introduced jointly with the legal tender the zloty.

The Reichskreditkassen, temporarily opened in Poland, were changed into branches of the Reichsbankas early as November 1st 1939 in the part of western Poland which had been "incorporated" into the Reich. About the same date the notes of the Bank of Poland and the Reichskreditkassenscheine were withdrawn from circulation in that area and exchanged for the Reich currency.

The population of the western "incorporated" provinces amounted before the war to some 10.6 million people, i.e. about 30% of the total pre-war population of Poland. The area covers some 35,4 thousand sq. miles.

Moreover, as a result of the Russo-German war, a part of northern Poland, namely the district of Bialystok, covering about 11,1 thousand sq. miles and with a pre-war population of about 1.6 million people, has also been "incorporated" into the Reich.

Thus the total of the pre-war population of the "incorporated" Polish provinces amounted to about 12.2 million people, and the area 46.5 thousand sq. miles.

It is estimated, that about 1 billion zloty have been exchanged into the currency of the Reich in the western "incorporated" areas (i.e. excluding the province of Bialystok). The monetary circulation in these territories to-day is undoubtedly higher than would be the case if we were to compute it by merely substituting Reichsmarks for zlotys at the rate of one mark for two zlotys.

One should remember that a part of the Polish population was evacuated from these districts before the advance of the German armies and that they took their money with them, so that the amount of zlotys available for exchange into Reichsmarks was already lower

in the pre-war circulation there. Moreover, the purchasing power of the zloty as compared with that of the Reichsmark was by no means expressed by the fixed exchange rate 2 zloty for 1 Reichsmark, being rather near the ratio 1 zloty = 1 Reichsmark. Thus after the exchange was made there undoubtedly arose an acute scarcity of purchasing power in the hands of the population, and it was necessary to increase the circulation there. Then a considerable number of German military, party and civil service men also arrived in these territories bringing their money with them. Finally, the incorporation with the German Reich, in which the money circulation per head was much higher than in Poland, had its influence in raising the circulation in Polish "incorporated" territories, and later the usual war-time rise of circulation followed /in the Reich the note circulation between the end of 1939 and the end of 1942 was more than doubled/.

Taking all these factors into consideration we come to the conclusion that at the end of 1942 the note circulation in Polish "incorporated" areas could be roughly estimated as somewhere between 1,5 and 2 billion Reichsmarks, i.e. between the equivalent of 3 and 4 billion of occupation zloty.

B. GENERAL GOVERNMENT. In the General Gouvernement the Reichskreditkassen were closed on April 8th 1940, and replaced by the "BANK OF POLAND IN POLAND" which was created by the occupation authorities.

The first operation of the new Bank was the exchange of the Bank of Poland notes and same amount of Reichsbank Reichsmark into the new zloty notes.

When this exchange was concluded it was stated that the total of the Bank of Poland zloty which found its way into the "BANK OF POLAND IN POLAND" amounted to pl. 1,950,000,000.-

This sum was composed of two parts. The first part consisted of the zloty notes which had been retained by the German authorities through the exchange operation in the "incorporated" areas. The total of about 950,000,000. zloty was deposited with the "Bank of Issue in Poland" by the German authorities. The second part consist-

Bank of Poland notes handed over for exchange by the
of the General Gouvernement, and its total amounted to
zloty.

As the "Bank of Issue in Poland" only credited the cur-
rent account of the German authorities with the first sum, the initial
amount of the new Bank reached only a total of about 1 billion

It is roughly estimated that about 700,000,000. zloty in
Poland notes in the territories "incorporated" with the Reich
of the General Gouvernement were not presented by the population
for exchange. It may be mentioned here at once that a further 1 billion
zloty remained in the hands of the population which inhabited the
Poland occupied by Russia. The matter is discussed further in para-
graph 10 below.

The amount of the bank-notes issued by the new Bank was main-
tained at approximately the same level up to the autumn of 1940. At
the same time the German authorities did not draw on the current account
mentioned above, and did not increase the circulation by any payments
drawn out of it. It is obvious that during this period the German au-
thorities were anxious to increase the confidence of the population
in the new currency.

The last months of 1940 and the first half of 1941 brought,
however, a rise in the amount of notes issued, due to the fact, that
troops massed in the General-Gouvernement before the outbreak
of the Russo-German war, were paid in occupation zloty. In 1942
there was a new sharp rise in note circulation, especially in the se-
cond half of the year.

The scanty information available about the various denomina-
tions in circulation shows, as compared with pre-war figures, an
apparent decline in 500 and 100-zloty notes, and a great increase
in 50 and 20-zloty notes, while new denominations of 10, 5, 2, and
1-zloty notes have been issued in place of the token coins of these
denominations.

The note circulation of the "Bank of Issue in Poland" amount-
ed to 1.5 billion zloty in January 1941, to 1.5 billion zloty in

to 2 billion zloty on November 15th 1941, to 2.4 billion zloty on March 20th 1942, and to about 4.2 billion zloty at the end of 1942. In coins are also in circulation in the General Government.

The current accounts with the "Bank of Issue in Poland" amount to 1.2 billion zloty on October 15th 1941, to 1.5 billion zloty on March 20th 1942, and to 1.2 billion zloty at the end of 1942.

The sums withdrawn from the Bank of Issue by the occupying authorities amounted to zloty 2.1 billion on October 15th 1941, to zloty 2.8 billion on March 20th 1942, and to zloty 4.5 billion at the end of 1942 (the balance, if any, remaining on the occupation authorities' account with the Bank of Issue in Poland, to be subtracted. It may possibly amount to a few hundred million zloty/.

As a result of the Russo-German war three Polish provinces were added to the General Government in 1941, namely those of Lwów, Stanislawów and Tarnopol. The total of Soviet roubles exchanged for new zloty notes in these three provinces amounted to only 94 million zloty, the rate of exchange being fixed at 1 zloty = 5 roubles.

The population of the General Government including the newly incorporated 3 provinces of Eastern Galicia amounted before the war to about 17.1 million people. The area of the General Government covers about 86,8 thousand sq. miles.

The budget of the General Government was fixed by the occupying authorities as follows: 1. Ordinary budget:

For the financial year	1940/41	-	1,438 million zloty
" " "	"	"	1,788 " "
" " "	"	"	2,701 " "
	1942/43	-	

2. Extraordinary budget:

For the financial year	1940/41	-	278 million zloty
" " "	"	"	714 " "
" " "	"	"	477 " "
	1942/43	-	

When considering these figures one should bear in mind that the budget of the General Government in the financial year 1938/39 amounted to about 2.5 billion zloty.

3. UNDEVELOPED POLISH TERRITORIES. About 1 billion zloty had been left in hands of the population inhabiting the Polish territories which, up to June 1941, were occupied by Russia. Immediately

At the occupation of the country, the Russian authorities established a rate of exchange which had no relation whatever to the purchasing power of the two currencies, namely 1 zloty = 1 Rouble. Later they declared the zloty valueless, without any exchange of zlotys for roubles being made.

As already mentioned after the arrival of the U.S.S.R. left the country, the German authorities incorporated the provinces of Lublin, Stanislawow and Tarnopol to the General Government, while the province of Bialystok has been "incorporated" into the Reich.

A part of Polish eastern territory was administered by the German authorities with the "Reichskommissariat Ukraine". A new "Emissionsbank in Ukraine" was set up, with temporary headquarters at Rome, and this bank is issuing a new currency called "Karbovanez". The "Karbovanez" is "guaranteed" by the land seized by the Germans.

The population of the Polish part of "Reichskommissariat Ukraine" amounted before the war to 3,2 million people, the area being about 23,4 thousand sq. miles.

Another part of Polish eastern territory, with a pre-war population of about 2,5 million people and an area of about 23,8 thousand sq. miles, was administered with the "Reichskommissariat Ostland" in which Reichskreditkassenscheine are legal tender, the issue of a new "Ostlandmark" being under consideration.

There is no information available concerning the note circulation in those two districts. It may be very roughly estimated as the equivalent of 1 billion occupation zloty at the end of 1942.

SUMMARY

	Circulation at the end of 1942	Pre-war population in millions	Area in thousands of miles
1. In the Polish territories "incorporated" into the Reich, the circulation was somewhere between 1,5 and 2 billion Reichsmarks, i. e. the equivalent of between	3 and 4 billion 1939 zloty	13,5	107,5

In the General Government
the circulation was

4.2 Billion zloty 17.1

In the Polish territories
incorporated with the Reich
on issuance of Reichsmark and the
Weichsmark with Ostland,
the circulation might be ve-
rily roughly estimated as about
500 million RM, i.e. the
equivalent of about

1 Billion zloty 6.0 47.1

Bank of Poland notes not
presented for exchange

2.7 Billion zloty -

Thus the total note circulation in Poland per ultimo 1942
might be roughly estimated as the equivalent of between 8 to 9 billion
zloty, and, together with the Bank of Poland notes not presented for
exchange, as between 10 to 11 billion zloty.

II. BANK DEPOSITS.

On December 31st 1938 the total amount of bank deposits /in-
cluding the accounts with the Bank of Poland/, amounted to 3.956
million zloty. In territories occupied by the Germans all accounts
were blocked, banks were closed and the cash out even when the influx
of new deposits increased their cash reserve. In the General Govern-
ment the occupation authorities have authorized the gradual pay-
out of pre-war bank deposits, provided the cash for these payments
was obtained through the liquidation of pre-war assets; it is repor-
ted that private banks have paid out about 3% of pre-war deposits.

No news is available about the amount of new deposits. How-
ever, in view of the great liquidity of the money market, and the
low rate of interest on the new deposits, it may be supposed that
their amount is considerable. In 1942 the rate of interest for demand
deposits was 1%, while before the war it was 3%.

III. PRICES, EXCHANGE RATE, AND BANK OF POLAND.

In the territories "incorporated" into the Reich the pur-
chasing power of the German mark is the same as throughout the whole
territory contained within the administrative frontiers of the Reich.

As far as the General Government is concerned, we are fa-
ced with one great difficulty, namely that the information availab-

refers mainly to the town of Warsaw and gives no idea whatever of the conditions prevailing in provincial towns and even less about all townships and villages. For this reason the deductions from what is available cannot be generalised. Here are some figures:

1/ In 1942 the index of nominal wages for municipal manual workers in Warsaw was 133% of pre-war wages. Of course these wages varied considerably from trade to trade. The wage-level is strictly controlled.

2/ The prices for agricultural food-stuffs paid out to the producers when goods are requisitioned /Einfassung/ was fixed for the season 1942/43 as follows /prices per quintal/:

Rye - 25 zloty, as compared with the average price of 15,5 zloty quoted at the beginning of 1939 at the normal corn exchange.

Wheat - 34 zloty, as compared with the average price of 18,5 zloty quoted in 1939 as above.

Oats - 24 zloty, as compared with the average price of 14,0 zloty quoted in 1939 as above.

Barley - 23 zloty, as compared with 17 zloty quoted in 1939 as above.

Potatoes - 8-9 zloty, according to the time of delivery, compared with 3.25 zloty quoted at the end of 1936 at the normal corn exchange.

3/ The prices of rationed goods sold to the public were as follows /per 1 kg/:

Rye Bread	-	0.45 - 0.55	zloty,	as compared with 0.30 zloty in April 1939
Sugar	-	2.40	" " "	with 1.0 zloty in April 1939
Milk	-	3.52	" " "	with 0.27 zloty in April 1939
Butter	-	6.00	" " "	with 4.24 zloty in April 1939

The quality of the bread now is much lower than before the

war.

There are some rough statistics giving the prices of food-stuffs in the black market in Warsaw. The following index giving an idea of the variation of prices of the most important foodstuffs, is quoted:

Monthly average 1939 -	100	November 1940 -	584
January 1939 -	313	February 1941 -	710
April 1940 -	903	May 1941 -	1989
August 1940 -	561	August 1941 -	1903
		November 1941 -	2150

The fluctuation in prices of various articles is very considerable, and it depends on the amount of supplies reaching the black market. These supplies are extremely irregular, due to the changes in severity of the requisitions, and to the variable degree of terror used in prosecuting the black market. According to unofficial information the price of bread in the black market reached in June 1941 28 zloty per one kg., later in August 1941 it fell to 7 zloty per 1 kg., and in December 1942 was about 22 zloty per 1 kg. There was a sharp rise in black market prices in the first three months of 1943.

It should perhaps be mentioned that the role played by the black market in Poland is greater than in any of the other occupied countries. This is due to the fact that official food rations are extremely small. According to figures compiled by the League of War-time Rationing and Consumption, 1942/, the official ration for a normal consumer represents 975 calories /a consumption unit is equal to 1370 calories/.

5/ Below are some quotations of the Warsaw Stock Exchange at the end of 1942, quotations of the end of 1936 being taken from the bank of Poland account 1937, 137.0 /; 5. Exchange rate of the Polish Zloty in Warsaw 1937/7.14; 6. 10. Czech - German exchange rate 1937/1.00; 7. 10. 1936. Exchange rate in Poland 1937/94/. At the end of 1942 there was a new sharp rise in quotations on the Warsaw Stock Exchange.

We have seen in chapter I of this report that the circulation in Poland at the end of 1942 was already a multiple of the pre-war circulation, having been, roughly estimating, about 4-5 times

great as at the end of 1938. Inflation was thus already on the march. The controlled prices of agricultural foodstuffs in General Gouvernement were generally speaking, nearly doubled as compared with the corresponding pre-war prices. The budget of the General Gouvernement has increased rapidly.

But, owing to a very strict rationing system and severe price and wage control backed by terror, there is no physical possibility in Poland of using the available liquid assets, and the amount of cash needed for the current expenditure of the population is limited. The business enterprises cannot use their cash and deposits either to create stocks of raw materials, or to pay higher dividends, or to raise wages, or to embark upon new fields of production. The money must mostly lie idle. It is a case of a typical potential inflation.

The information has reached us that, in order to sterilize a part of the purchasing power in hands of the population of the General Gouvernement, the occupation authorities are considering the possibility of ordering the obligatory payment of a part of note circulation (e.g. higher denominations) into special blocked bank accounts.

If there is any relaxation in the methods and efficiency of the oppressive German machine, a propensity to spend the available cash surplus will undoubtedly change the potential into real inflation.

As soon as the German occupation comes to an end, the violent propensity to spend will show itself in a general run on goods both on the part of business firms and of private persons. In order to prevent the potential becoming real inflation various controls will have to be preserved, and taxation will have to be maintained at a high level.

But the only fundamental remedy will consist of securing a sufficient and regular supply of goods, and organising the influx of necessary foodstuffs and raw materials as quickly as possible after the end of the German occupation, thus rendering them to stabilise prices and wages and to establish an equilibrium between them and the purchasing power in the hands of the population.

IV. CURRENCY PROBLEMS IMMEDIATELY AFTER THE WAR.

The first task will be the unification of the currency, the replacement of the various currencies now in circulation in Poland by a new zloty note. There is now a general lack of confidence in the German or occupation currencies, and one must expect that this situation will become even worse, so that even a wholesale repudiation of the occupation currencies might be expected. The best way out would be an immediate exchange of the occupation currencies for the new currency. Should there be any difficulties in supplying new bank-notes, then, as a temporary measure for a very short period, one could overstamp the bank-notes now in circulation. This period would have to be very short - a few weeks or a few months at the most. Otherwise frauds may take place, which could be particularly dangerous in the areas where the Reichsmark is in circulation and where marks from the Reich should be imported wholesale with forged overprints.

A principle to be observed is that the bank-notes of the Bank of Poland, issued before 1939, and hoarded by the population cannot in any case be treated less favourably than any of the occupation currencies.

Foreseeing the need for introducing a uniform currency by exchanging the various occupation currencies now circulating in Poland into one new currency this being a necessary pre-requisite for establishing any rates of exchange, the Bank of Poland has prepared new zloty bank-notes printed in Gr. Britain and U.S.A. in the following denominations:

<u>Denomination</u> zloty	<u>Number of notes</u> in millions	<u>Value in Millions</u> of zloty
500	3	1,500
100	10	1,000
50	40	2,000
20	40	800
10	10	100
5	40	200
2	40	80
1	40	40

Total..... 5.720

V. RATE OF EXCHANGE.

1. Under the circumstances existing in Poland and described in this memorandum it is impossible to fix now any appropriate rate of exchange between the occupation currencies in Poland and the new zloty notes, as we do not know how far the process of inflation and the depreciation of currencies in Poland will be carried on before the hostilities end. If this depreciation is very considerable, then the ratio of exchange will have to be several occupation zloty to one new zloty - a ratio which it would be too early to determine now.

The exchange of other occupation currencies for the new zloty should take place at a rate corresponding to the ratio between the level of wages and prices in the respective areas of circulation of those currencies and the level of wages and prices in the General Government.

2. The fixing of the rate of exchange of the new zloty currency in relation to the dollar and to other currencies should be made on the principle of purchasing power parity. It is impossible to foresee now at what level wages and prices are likely to settle in Poland after the liberation of the country, and therefore it is premature to decide what will be the parity of the new zloty. As we pointed out in the last paragraph of chapter III, the level of wages and prices in Poland after the end of hostilities will greatly depend on the relief supplies, i.e. on the role they will play in bringing into harmony the amount of goods available and the amount of purchasing power in the hands of the population.

The final parity will be fixed in accordance with the principle of purchasing power parities but the provisional parity should be as close as possible to the definite one in order to avoid future disturbances.

It is thus premature to determine now what the appropriate provisional dollar exchange rate for zloty should be after Poland is liberated from Axis occupation.

3. If the use of the occupation zloty currency /or its substitute prepared beforehand/ for American Armed Forces liberating Po-

Before the new zloty currency starts to circulate there, was for
reason considered to be impracticable - the best solution in our
case, which however must not be the legal tender in the U.S.A. The
of exchange of this special dollar currency for currencies cir-
culating now in Poland, and especially for the occupation zloty,
will be determined in due time by the American and Polish Treasuries
acting in this matter in close cooperation and agreement.

17° EAST OF GREENWICH 10° 21° 23° 25° 27°

ADMINISTRATIVE MAP OF
POLAND
 UNDER GERMAN OCCUPATION
 1943.



- | | | | |
|--|--|---------------|-------------------------------------|
| | National boundaries | WARSAW | Capital of State |
| | Boundaries of POLAND (31 August 1939) | Lublin | Capital of a Voivodship |
| | Boundaries of the free city of Danzig/Danzig | Posnan | Capital of a Province |
| | Voivodship boundaries | aaabaa | District town |
| | New boundaries created by the Germans | | Towns with over 100,000 inhabitants |
| | The Greater German Reich 1940 | | 50,000 to 100,000 |
| | The Greater German Reich 1943 | | 20,000 to 50,000 |
| | Provinces | | less than 20,000 |
| | Districts | | Railways |

Scale 1 : 4 000 000

DR LUDWIK GRODZICKI

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

July 23, 1943

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended July 21, 1943, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

E.M.B.

FEDERAL RESERVE BANK
OF NEW YORK

July 28, 1943.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended July 21, 1943, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse

Robert G. Rouse,
Vice President.

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

Enclosure

COPY

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended July 21, 1943

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)					BANK OF FRANCE								
	D E B I T S					C R E D I T S			Transfers from Official Australian Account	Other Credits (c)	Net Incr (+) or Decr. (-) in \$ Funds (d)	Total Debits (e)	Total Credits (e)	Net Incr. (+) or Decr. (-) in \$ Funds (d)
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)							
First year of war (g)	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	52.0	3.9	416.2	+ 35.0	866.3(f)	1,095.3(f)	+299.0	
War period through December, 1940	2,782.3	1,425.6	20.9	1,335.8	2,793.1	2,109.5	108.0	14.5	561.1	+ 10.8	878.3	1,098.4	+220.1	
Second year of war (h)	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	205.4	- 13.2	38.9	8.8	- 30.1	
Third year of war (i)	1,235.6	904.8	7.7	223.1	1,361.3	21.8	5.5	57.4	1,276.8	+125.9	18.5	4.4	- 14.1	
1942							0.5		60.6	+ 25.5	10.1	0.4	- 9.7	
Sept. 1 - Sept. 30	56.1	37.1	-	19.0	81.6	-	-	12.0	45.5	+ 10.8	-	0.3	+ 0.3	
Oct. 1 - Oct. 28	46.7	27.4	-	19.3	57.5	-	-	5.5	78.2	- 12.9	0.2	0.3	+ 0.1	
Oct. 29 - Dec. 2	96.6	35.5	-	61.1	83.7	-	-	8.0	43.9	+ 21.5	-	-	-	
Dec. 3 - Dec. 30	30.4	13.3	-	17.1	51.9	-	-	8.0	20.9	-109.7	-	-	-	
1943									105.8	+ 33.6	-	-	-	
Dec. 31 - Feb. 3	166.6	20.9	125.0	22.7	58.9	-	-	15.0	59.4	+ 29.1	-	-	-	
Feb. 4 - Mar. 3	87.2	17.8	37.7	31.7	120.8	-	-	5.0	15.1	+ 50.4	-	-	-	
Mar. 4 - Mar. 31	35.3	12.9	-	22.4	64.4	-	-	15.1	72.3	+ 50.4	-	-	-	
Apr. 1 - Apr. 28	27.0	16.3	-	20.7	87.4	-	-	13.0	84.4	+ 13.0	-	-	-	
Apr. 29 - June 2	90.4	74.3	-	16.1	103.4	-	-	20.0	110.7	+ 99.1	-	-	-	
June 3 - June 30	31.6	11.6	-	20.0	130.7	-	-	-	-	-	-	-	-	
PERIOD ENDED:									18.2	+ 12.9	-	-	-	
June 30	6.3	3.5	-	2.8	19.2	-	-	7.0	11.2	+ 13.1	-	-	-	
July 7	5.1	2.9	-	2.2	18.2	-	-	6.0	24.3	+ 21.1	-	-	-	
July 14	9.2	5.3	-	4.5	30.3	-	-	3.0	20.6(j)	+ 14.2	-	-	-	
July 21	9.4	4.9	-		23.6(k)	-	-							

See attached sheet for footnotes.

Average Weekly Expenditures Since Outbreak of War
France (through June 19, 1940) \$19.6 million

England (through June 19, 1940) \$27.6 million
England (June 20, 1940 to March 12, 1941) \$54.9 million
England (March 13, 1941) \$21.9 million

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended July 21, 1943

14-00000
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in \$ Funds	
First year of war (a)	223.0	16.0	206.4	204.7	412.7	20.9	38.7	32.4	+ 161.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.8
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.8
Second year of war (b)	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Third year of war (c)	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0	+ 40.5	107.2	57.4	49.8	112.2	17.2	95.0	- 5.0
1942																
Sept. 3 - Sept. 30	46.3	-	46.3	53.6	13.2	-	-	40.4	+ 7.3	28.0	20.5	7.5	18.1	-	18.1	- 9.8
Oct. 1 - Oct. 28	44.9	-	44.9	51.5	16.6	-	-	34.9	+ 6.6	14.3	12.0	2.3	14.6	-	14.6	+ 0.3
Oct. 29 - Dec. 2	56.5	-	56.5	80.8	14.4	-	-	66.4	+ 24.3	10.2	5.5	4.7	9.4	-	9.4	- 0.8
Dec. 3 - Dec. 30	48.2	-	48.2	43.9	2.9	-	-	43.0	- 4.3	14.1	8.0	6.1	11.7	-	11.7	- 2.4
1943																
Dec. 31 - Feb. 3	52.5	-	52.5	217.1	-	125.0	-	92.1	+ 164.6	16.2	8.0	8.2	17.3	-	17.3	+ 1.1
Feb. 4 - Mar. 3	35.1	-	35.1	101.2	-	37.7	-	63.5	+ 66.1	15.9	15.0	0.9	16.0	-	16.0	+ 0.1
Mar. 4 - Mar. 31	36.2	-	36.2	51.6	-	-	-	51.6	+ 15.4	7.1	5.0	2.1	6.7	-	6.7	- 0.6
Apr. 1 - Apr. 28	29.0	-	29.0	39.6	-	-	-	39.6	+ 10.6	16.4	15.1	6.3	19.3	-	19.3	+ 2.9
Apr. 29 - June 2	79.9	-	79.9	95.8	-	-	-	95.8	+ 15.9	21.8	19.0	2.8	20.1	-	20.1	- 1.7
June 3 - June 30	53.8	-	53.8	77.2	-	-	-	77.2	+ 23.4	20.0	20.0	-	27.3	-	27.3	+ 7.3
WEEK ENDED:																
June 30	19.9	-	19.9	16.5	-	-	-	16.5	- 3.4	1.0	1.0	-	8.6	-	8.6	+7.6
July 7	15.7	-	15.7	18.6	-	-	-	18.6	+ 2.9	8.3	7.0	1.3	11.6	-	11.6	+3.3
July 14	68.5	-	68.5	8.9	-	-	-	8.9	-59.6	7.8	6.0	1.8	0.5	-	0.5	-7.3
July 21	11.4 (e)	-	11.4	25.0 (e)	-	-	-	25.0 (f)	+13.6	3.0	3.0	-	0.1	-	0.1	-2.9

Average Weekly Expenditures

First year of war 6.2 million.
 Second year of war 8.9 million.
 Third year of war 10.1 million.
 Fourth year of war (through July 21, 1943) 9.2 million.

- (a) For monthly breakdown see tabulations prior to April 23, 1941.
 (b) For monthly breakdown see tabulations prior to October 8, 1941.
 (c) For monthly breakdown see tabulations prior to October 11, 1942.
 (d) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (e) Does not reflect transactions in short term U. S. securities.
 (f) Includes \$ 19.1 million deposited by War Supplies, Ltd. and \$5.0 million received from N. Y. accounts of War Supplies, Ltd.

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941.
- (h) For monthly breakdown see tabulations prior to October 8, 1941.
- (i) For monthly breakdown see tabulations prior to October 14, 1942.
- (j) Includes: 16.2 million to be held for the credit of the U. S. armed forces abroad (15.0 million of this amount was for the U. S. Army and 1.2 million for the U. S. Navy); \$2.4 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: July 23, 1943, 9 a.m.

NO.: 1263

This is a strictly confidential message, TF 143, transmitting the weekly economic report from Mr. Adler for the Secretary of the Treasury.

1. Regarding prices:

(a) Chungking indices are as follows

Wholesale:	<u>May</u>	<u>Percent Increase Over April</u>
Food	7290	2
General	10830	8
Retail:		
Food	6690	13
General	8730	12

(b) Kunming indices are as follows (August 1937 municipal government = 100)

Food	22300	15
General	20400	9

In most large cities the price of rice was doubled between May and June; since the beginning of July it has risen 10% in Chungking. To increase revenue yields the government monopoly has doubled price of salt during the past month. A 30% increase in transportation charges was effected in June. The Chungking merchants associations at the beginning of July marked "negotiated" prices of non-essentials up an average of 50%. (*) in circulation in May approximately CN dollars 3 billion more than in April. Further reports concerning the issuance by the Japs of forged fake notes have been received.

3. Oversold position of the General Bank in June was U. S. \$7,077,000, nearly 6 1/4 million of which went as

repayment

-2-

repayment on the cotton and wheat loan and £651,000, 2/3 of which went as payment for bank notes.

4. The black market rate in Kunming for US currency is now over 70 and for US checks is over 55.

5. Part of the land tax will be collected by the Government in kind this year, in cotton in cotton producing provinces.

6. In 1942 the industrial output was running at higher levels than the 1943 output is. Production of following (?) other commodities has fallen: alcohol, cement, coal, native cloth, paper, sugar, and tobacco.

ATCHESON

(*) Omission. This is now being serviced on by the Code Room.

Corrected copy of page 2 of paraphrase of telegram # 1263, July 23, 1943, 9 a.m., from Embassy, Chungking

-2-

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5. Part of the land tax will be collected by the Government in kind this year, in cotton in cotton producing provinces.

6. In 1942 the industrial output was running at higher levels than the 1943 output is. Production of following among other commodities has fallen: alcohol, cement, coal, native cloth, paper, sugar, and tobacco.

ATCHESON

(*) New paragraph. On page 1 in the sixth line from the bottom of the page instead of (*) insert "Two. Legal tender". The line will now read:

Two. Legal tender in circulation in May approximately
Cn dollars 3 billion more

NOT TO BE RE-TRANSMITTED

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 241

Information received up 7 a.m. 23rd July, 1943.

1. MILITARY

SICILY. On Eighth Army front no appreciable change. Troops of Seventh Army occupied ALIBENA and VALLELUNGA, PRIZZI, SOUTH MARGHERITA, CASTELVETRANO.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRETU.S. SECRETOPTEL No. 242

Information received up to 7 a.m., 23rd July, 1943.

1. NAVAL

20th/21st. Light forces engaged U-boats off AUGUSTA.

PACIFIC. 20th. One of H.M. Australian Cruisers torpedoed by U-boat about 170 miles west of ESPIRITU SANTO, but reached port in tow on 21st. Casualties - 7 killed, 7 missing, 16 wounded.

2. MILITARY

SICILY. 8th Army. On 21st fierce fighting continued throughout the day. Front line straightened out at a number of points in CATANIA area. Further west Canadian troops occupied ASSORO.

7th Army. U.S. troops occupied PETRALIA. More than 40,000 prisoners have been captured. Large quantities of civil and military stores were seized at CALTANISSETTA.

3. AIR OPERATIONS

WESTERN FRONT. 22nd. Typhoon bombers damaged 4 locomotives in BELGIUM.

ITALY AND SICILY. 20th/21st. 70 tons bombs dropped on COTRONE airfield where hangars, buildings and 7 aircraft set on fire and 55 tons on NAPLES railway centre.

21st. Fortresses (B. 17) dropped 72 tons on GROSSETO airfield (80 miles northwest of ROME) and 14 tons on CERAMI (Northeast of SICILY).

22nd. At CATANIA, 5,000 ton ship left sinking after attack by Allied bombers.

BURMA. 19th/20th. Allied heavy and medium bombers attacked 3 bridges in MANDALAY and ARAKAN areas, damaging approaches.

*Recd office
1 near Dec
1943- July 24
12.50 am
E.P.*